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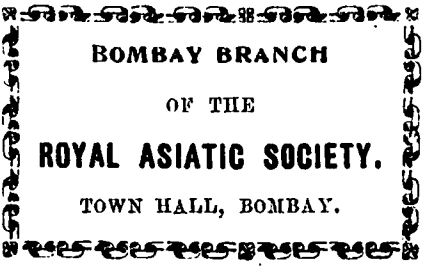

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Report

of the

Indian Tariff Board

(Cotton Textile Industry Enquiry)

1927

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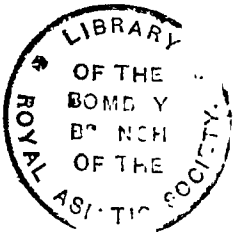
Volume I

REPORT



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1927

NOTE

The estimated cost of the Indian Tariff Board (Cotton Textile Industry Enquiry) including the cost of printing the Report and the Evidence is as follows :—

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CHAPTER I

INTRODUCTORY

Appointment of Board and Terms of Reference

1. This Tariff Board was appointed by the Resolution of the Government of India in the Department of Commerce, No. 341-T. (9), dated June 10th, 1926, the first four paragraphs of which are reproduced below :—

"The Government of India have received an application from the Bombay Millowners' Association requesting that the Tariff Board, or some other Committee similarly constituted and with similar powers, may be directed to enquire into the causes of the present depression in the Bombay cotton textile industry and to suggest the measures which might be taken to restore it to prosperity.

2. The Government of India agree that this enquiry should be made, and consider that it should be held as soon as possible. The Tariff Board is, however, at present fully occupied with the statutory enquiry into the steel industry required by the Steel Industry (Protection) Act, 1924. The Government of India have, therefore, decided to appoint a second Tariff Board for the purpose of the enquiry into the cotton textile industry, with the following terms of reference :—

(1) to investigate the condition of the cotton textile industry in India, with special reference to the industry in Bombay and Ahmedabad ;

(2) to examine the causes of the depression in the industry and to report whether they are of a temporary or permanent character ;

(3) in particular, to consider whether, and if so to what extent, the depression is due to the competition of other countries in the home and export trade ;

(4) to report whether, having regard (*i*) to the fact that the industry has long been firmly established in India, and (*ii*) to the interests of the consumer and to all other interests affected,—

(*a*) the industry is in need of protection ; and

(*b*) if so, in what form and for what period protection should be given ; and

(5) to make any other recommendations that are germane to the subject.

3. The following gentlemen have agreed to serve on the Board :—

President

F. NOYCE, Esq., C.S.I., C.B.E., I.C.S.

Members

Rai Bahadur PANDIT HARI KISHAN KAUL, C.S.I., C.I.E.

N. S. SUBBA RAO, Esq., M.A., Bar.-at-Law, Principal and Professor of Economics, Maharaja's College, Mysore.

4. The headquarters of the Board will be at Bombay, but it will also visit such other places as it thinks necessary for the purpose of the enquiry. It will assemble at once and report to the Government of India at the earliest possible date."

Proceedings of the Board

2. The Board assembled at Bombay on July 1st, Captain D. F. Keegan, Imperial Customs Service, who had been appointed Secretary, taking charge of his duties on July 5th. The formal statement of the Bombay Millowners' Association in support of their application for protection was not submitted to it until the 17th of that month, but the interval was fully occupied in inspecting a number of mills in Bombay and in preliminary investigations. A questionnaire was framed immediately on receipt of the representation of the Bombay Millowners' Association and was issued on August 1st, three weeks being allotted for the receipt of replies. Mr. N. G. Majmudar, Manager of the Sholapur Spinning and Weaving Company's Mills, joined the Board as Technical Adviser on July 28th. Pending the receipt of replies to the questionnaire, the Board visited Sholapur, Nagpur and Ahmedabad, three of the most important centres of the cotton textile industry outside Bombay. The examination of witnesses commenced at Bombay on August 24th and occupied three weeks after which the Board proceeded to Ahmedabad, Madras, Calcutta, Cawnpore, Delhi, Amritsar and Lahore for inspection and evidence, returning to Bombay on October 16th. Further evidence from witnesses who had been unable to appear before it at its first sittings and from the representatives of the Bombay and Ahmedabad Millowners' Associations was then taken. The last witness was examined on the 9th November. The Board held forty sittings in all, in the course of which, in addition to the representatives of the Bombay, Ahmedabad and Baroda Millowners' Associations, representatives of fifteen Chambers of Commerce, Labour Unions and other bodies were examined and also thirty-nine individual witnesses, almost all of whom had previously sent in written memoranda. Written memoranda were also received from forty-six bodies and individuals interested in the enquiry who were not orally examined. A list of the mills and piecegoods markets inspected in Bombay and other centres is attached as Appendix I. We wish to take this opportunity of expressing our indebtedness to those who appeared before us or submitted written memoranda and especially to the Director-General of Commercial Intelligence and all Collectors of Customs who furnished us with much valuable statistical material. We cannot refrain from an expression of regret that more evidence of value on a matter of such vital importance to India was not forthcoming

from witnesses not directly interested in the fortunes of the industry and that we were not, except in one comparatively unimportant respect, favoured with the views of the Government of Bombay on the points raised in our questionnaire.

Scheme of the Report

3. In Chapter II, we give a brief survey of the progress of the cotton textile industry from 1899 to 1922 as a preliminary to the examination which we make in Chapter III of the nature and extent of the present depression in the industry. In Chapters IV to VII, we discuss the extent to which the depression may be attributed to world factors, to foreign competition, to other causes affecting the Indian industry as a whole and to causes special to Bombay. In Chapter VIII, we present the results of our enquiries into costs of production and discuss the inferences to be drawn from these in regard to the relative advantages possessed by Bombay and other centres. In Chapters IX to XII, we examine the extent to which remedies for the depression are to be found in internal economies in the industry, improvements in its organisation, changes in the tariff and the grant of State aid other than in the form of tariff changes. In Chapter XIII, we deal with two special applications for tariff changes which were made to us. Chapter XIV contains a summary of our conclusions and recommendations.

CHAPTER II

THE COTTON TEXTILE INDUSTRY IN INDIA FROM 1899 TO 1922

The Cotton Textile Industry, 1899-1913

4. The Bombay Millowners' Association consider that the seeds of the present depression were sown in 1893 with the closure of the mints in India to the free coinage of silver to which they attribute the loss of the China trade in yarn. As they attach so much importance to this point, we propose to examine it at length at a later stage, but, for our present purpose, which is to discover how far recent changes in the character of the industry may have brought about the present conditions, it will be sufficient to go back to the end of the last century. We have selected the year 1899-1900 as our starting point in preference to 1900-01, as in the latter year, plague in Bombay following on famine upcountry brought down the total mill production of yarn from 514 to 353 million pounds. It was, moreover, in the year 1899 that the change from the free coinage of silver to the gold standard may be said to have been completed by the enactment of the Indian Currency Act of that year. A statement showing the progress of the cotton mill industry in India, not only since that date but for 16 years previously, is attached as Appendix II. In Appendices III and IV will be found tables which give a conspectus of the industry from 1899-1900 in all its branches, mill and handloom production, imports and exports. A study of the table given below will indicate the alterations in the character of the cotton textile industry which took place between 1900 and the outbreak of the war. It should be explained that a difficulty has arisen in compiling this and the similar tables which follow owing to the fact that the year adopted for the purpose of the returns of mills, spindles and looms published by the Bombay Millowners' Association is not the financial year for which the figures of production and exports of yarn and cloth are compiled. It is now the year ending August 31st, but previous to 1914 was the year ending June 30th. In these circumstances, we have decided that the best method to follow for purposes of comparison is to give the figures of mills working, looms and spindles for the year adopted by the Millowners' Association and the figures of production of yarn and cloth for the following financial year which therefore includes either three or five months of the Bombay Millowners' Association's year. Our justification for this is that it is obviously not until after the end of the year in which new mills commence working or new looms and spindles are installed in existing mills that their effect on production becomes apparent.

TABLE I

	Number of mills working	Number of spindles	Number of looms	Number of spindles to looms	Mill production of yarn in millions of lbs.	Mill production of cloth in millions of lbs.	Exports of yarn in millions of lbs.	Percentage of exports of yarn to total production	Exports of cloth in millions of yards
1898-99 (year ending June 30th)						1899-1900 (year ending March 31st)			
Bombay	74	2,338,697	22,209	105	514*	102*	244	47·4	112
Rest of India	93	2,211,094	15,946	139					
Total ..	167	4,549,791	38,155	119	..	..	..	..	..
Percentage of Bombay to all India	44·3	51·4	58·2	..					
1903-04 (year ending June 30th)						1904-05 (year ending March 31st)			
Bombay	76	2,471,750	24,136	102	333	93	260	44·9	135
Rest of India	107	2,531,987	20,901	121	245	66			
Total ..	183	5,003,737	45,037	111	578	159	..	..	..
Percentage of Bombay to all India	41·5	49·4	53·6	..	57·6	58·5	..	..	..
1907-08 (year ending June 30th)						1908-09 (year ending March 31st)			
Bombay	79	2,653,875	34,565	77	358	107	242	36·8	113
Rest of India	139	3,008,457	31,667	95	300	85			
Total ..	218	5,662,332	66,232	85	658	192	..	..	..
Percentage of Bombay to all India	36·2	46·8	52·1	..	54·4	55·8	..	..	..
1912-13 (year ending June 30th)						1913-14 (year ending March 31st)			
Bombay	77	2,806,566	44,804	63	355	138	207	30·3	130
Rest of India	159	3,513,462	47,683	74	328	136			
Total ..	236	6,320,028	92,487	68	683	274	..	..	..
Percentage of Bombay to all India	32·6	44·4	48·4	..	52·0	50·3	..	..	..

* The figures of production for Bombay and the rest of India are not available separately.

The first point brought out by this table is the steady progress made by the industry in the period under review and the marked alteration in its character. At the outset of the period we are considering, the Indian cotton mill industry was essentially a spinning industry and nearly half the yarn produced was exported. At the end of it, while the number of spindles had increased by 39 per cent., the number of looms had increased by no less than 142 per cent., the number of spindles per loom falling from 119 in 1898-99 to 68 in 1912-13. The change was specially marked in the upcountry mills which had 139 spindles per loom in 1898-99 against 74 in 1912-13.

In Bombay, this change was undoubtedly the direct effect of the decreasing importance of the export trade in yarn, the percentage of yarn exported to that manufactured falling from 47·4 to 30·3 though the exports actually decreased by 37 million pounds only. A further point brought out by the table is the steady fall in the predominance of Bombay in the industry. At the outset of the period, Bombay with 74 mills against 93 in other centres was ahead of the rest of India in all respects, spindles, looms, and production of yarn and cloth. At the end of it, while the number of mills actually working in upcountry centres had increased by 66 and that in Bombay had remained practically stationary, the upcountry mills had passed Bombay in the number of spindles and looms and were only slightly behind it in the production of yarn and cloth. Another change which should be mentioned is in the character of the goods produced. In 1901-02, the earliest year for which separate figures are available for Bombay, the Bombay mills were producing 233 million yards of grey goods against 176 million yards produced by upcountry mills. In 1909-10, the production in Bombay and in upcountry centres was almost the same, being 386 million yards in Bombay against 384 million yards in upcountry centres. In 1913-14, the upcountry mills had increased their production of grey goods to 484 million yards while the Bombay production was 388 million yards. On the other hand, in 1901-02, the Bombay production of coloured goods was 66 million yards against 204 million yards in 1913-14, the corresponding figures for upcountry mills being 28 and 88 million yards respectively.

The imports of yarn remained fairly constant throughout the period, being 42·6 million pounds at the beginning and 44·2 million pounds at the end of it, but the percentage the imports bore to the Indian mill production fell from 8·2 to 6·4. The bulk of the imports came from the United Kingdom which, in 1913-14, supplied over 86 per cent., the greater part of the balance being made up of dyed yarn from Holland, Switzerland and Italy and of mercerised yarn from Japan. The imports of yarn from Japan reached one million pounds for the first time in 1913-14, but of these ·87 million pounds were classed under "unspecified descriptions."

The imports of piecegoods also remained on much the same level until the last two years when, owing to the abundance and relative cheapness of supplies of American and Egyptian cotton, they rose sharply from 2,438 million yards in 1911-12 to 3,023 million yards in 1912-13 and 3,197 million yards in 1913-14. The proportion borne by Indian mill

production to imports increased steadily throughout, the percentage of the one to the other rising from 19 in 1899-1900 to 36 in 1913-14. The United Kingdom possessed an almost complete monopoly of the trade in both grey and white goods, the percentages in 1913-14, which may be taken as typical, being 99 for grey goods and 98 for white goods from that country which also supplied 92 per cent. of the coloured goods, Italian, Dutch and German prints and chintz accounting for the balance. The imports of Japanese piecegoods were considerably under one million yards until 1912-13 when they rose sharply to 5·8 million yards and again to 8·9 million yards in 1913-14, the latter figure however representing only ·28 of the total imports.

The average annual price of cotton in Bombay during this period ranged between Rs. 150 per candy* of Broach cotton in 1899 and Rs. 342 in 1911, the price in 1913 being Rs. 299. The average prices per pound of standard longcloth and of 20s yarn respectively were 6 annas and $4\frac{3}{4}$ annas in 1899, $8\frac{1}{3}$ annas and $6\frac{7}{8}$ annas in 1904, $10\frac{1}{16}$ annas and $8\frac{1}{2}$ annas in 1910 and 10 annas and $7\frac{5}{8}$ annas at the end of the period, that is in March, 1914.

As regards labour, the most noteworthy feature of this period was the passing of the Factory Act of 1911 which fixed the hours of work at 12 and prohibited the employment of women and children during night hours.

The War Period, 1914-18

5. The five war years may, broadly speaking, be regarded as a period of arrested development mainly owing to the difficulties in obtaining new machinery, though the tendencies apparent in the earlier period continued to operate. A table similar to that in paragraph 4 shows the position at the end of the war :—

TABLE II

	Number of mills working	Number of spindles	Number of looms	Number of spindles to looms
	1917-18 (year ending August 31st)			
Bombay	86	2,882,648	59,162	48
Rest of India	163	3,679,989	56,656	65
Total ..	249	6,562,637	115,818	56
Percentage of Bombay to all India ..	34·5	43·9	51·0	..

	Mill production of yarn in millions of lbs.	Mill production of cloth in millions of lbs.	Exports of yarn in millions of lbs.	Percentage of exports of yarn to total production	Exports of cloth in millions of yards
	1918-19 (year ending March 31st)				
Bombay	306	177	73	11·7	187
Rest of India	309	172			
Total ..	615	349	....	....	....
Percentage of Bombay to all India ..	49·7	50·7	....	....	....

* One candy = 784 lbs.

While the number of mills both in Bombay and upcountry centres as well as the number of spindles remained practically stationary, the number of looms increased by 25 per cent., an increase which, as in the years preceding the war, was accentuated by the fall in the export trade in yarn. The exports of yarn, after rising from 143 million pounds in 1914-15 to 178 million pounds in 1916-17 fell to 130 million pounds in 1917-18 and 73 million pounds in 1918-19. They were thus 134 million pounds less at the end of the period than in 1913-14 and represented only 11·7 per cent. of the total mill production as against 30·3 per cent. in that year. Freight difficulties and the competition of Indian yarn in China with Chinese and Japanese yarn account to a large extent for the decrease, but, as the Bombay Millowners' Association themselves admit, the demand in the Indian market was also a contributing cause. In other words, the large profits which could be made locally led to the neglect of the foreign market with results which were later to become fully apparent. Upcountry mills continued to increase their production of grey goods as compared with Bombay, the Bombay production being 472 million yards against 604 million yards for other centres. On the other hand, the Bombay production of coloured piecegoods increased to 286 million yards whilst that of upcountry centres remained stationary at 88 million yards.

There was, for obvious reasons, a marked fall in the imports both of yarn and piecegoods in the war years and, for equally obvious reasons, a striking increase in the imports of both from Japan. The imports of yarn fell from 42·9 million pounds in 1914-15 to 19·4 million pounds in 1917-18 but recovered to 38·1 million pounds in 1918-19. Imports from Japan in 1916-17 were over 4 million pounds, chiefly of counts 31s to 40s and of mercerised cotton yarn and represented 13·6 per cent. of the total against 1·7 per cent. in the previous year. In 1917-18, the total was much the same but the percentage increased to 22, while in 1918-19 the Japanese imports which were over 27 million pounds represented 72 per cent. of the total against 9 million pounds or 25 per cent. from the United Kingdom. The advance made by Japan in the imports of piecegoods, though not quite so striking, was also very marked. In 1916-17, the imports of grey goods from Japan which totalled 75·6 million yards represented 9 per cent. of the total imports under that head while those of coloured goods amounting to 21·9 million yards represented 4·8 per cent. of the total. In 1917-18, the imports from Japan of 73·3 million yards of grey goods represented 11 per cent. of the total while the 18·7 million yards of coloured goods represented 4·7 per cent. of the total. In 1918-19, imports of grey goods from Japan rose sharply to 206·8 million yards, or 35 per cent. of the total, those of white goods to 10·4 million yards representing 3·7 per cent. of the total and those of coloured goods to 20·8 million yards representing 9 per cent. of the total. The share of Japan in the imports of piecegoods in this year amounted to 21 per cent. against 77 per cent. from the United Kingdom.

In the Indian market, the price of cloth and cotton showed little change in 1914 and 1915. A steady rise in 1916 was followed by a rapid advance in 1917, the average price of Broach cotton per candy in that year being

Rs. 443 while that of standard longcloth which was 14½ annas per pound at the beginning of the year rose to 26 annas at the end of it. The price of 20s yarn in January was 10⅜ annas per pound against 17⅛ annas in December. The peak was reached in August, 1918 with a price of 39 annas per pound for longcloth and 28 annas per pound for 20s yarn. At the end of the year these had fallen to 24¾ annas and 18⅞ annas respectively. The advance in the price of cotton was equally spectacular, the average price of Broach cotton for the year being Rs. 717 per candy. The year 1917 may be said to mark the beginning of the boom period for the cotton industry and especially the Bombay section of it.

Until the latter half of 1917, no systematic action in regard to increase or reduction in wages had been taken by the Bombay Millowners' Association as a body. In July, 1917, the first all-round increase over the individual rates for each mill as shown in what is known as its "standard muster" was given, by the grant of a "war bonus" of 10 per cent. which was raised on January 1st, 1918, to 15 per cent.

The exchange fluctuations in this period were insignificant compared with those of the post-war years, the exchange value of the rupee being raised to 17*d.* in August, 1917 and 18*d.* in April, 1918.

The post-war years, 1919-21

6. The three years immediately following the close of the war were a brief period of abounding prosperity for the mill industry in India, in spite of the fact that the year 1919-20 opened under the depressing effects of the failure of the monsoon and the influenza epidemic of the previous year. The position at the end of the period is shown in the table below :—

TABLE III

	Number of mills working	Number of spindles	Number of looms	Number of spindles to looms
	1920-21 (year ending August 31st)			
Bombay	83	3,025,488	62,763	48
Rest of India	162	3,820,336	60,781	62
Total ..	245	6,845,824	123,544	55
Percentage of Bombay to all India	33·8	44·1	50·7	....

	Mill production of yarn in millions of lbs.	Mill production of cloth in millions of lbs.	Exports of yarn in millions of lbs.	Percentage of exports of yarn to total production	Exports of cloth in millions of yds.
	1921-22 (year ending March 31st)				
Bombay	349	207	88	12·6	187
Rest of India	344	196			
Total ..	693	403	....	....	...
Percentage of Bombay to all India	50·3	51·3	....	....	....

It will be seen that there was no increase in the number of mills working and that the expansion in the number of looms and spindles was comparatively small owing to the difficulty in obtaining new machinery in the post-war conditions. None the less, there was a marked increase in the total production of yarn and cloth, both in Bombay and upcountry centres, evidence that all mills were working to their full capacity.

There was little change in the position of Bombay relative to that of upcountry centres under the various heads in the table, Bombay still continuing to produce more than half the total output of yarn and cloth. The production of grey goods in Bombay was 586 million yards against 699 million yards in upcountry mills, the corresponding figures for coloured goods being 336 million yards against 110 million yards. Exports of yarn and cloth after a spurt in 1919-20 returned to their former level. The large increase in the exports of yarn from 73 million pounds in 1918-19 to 160 million pounds in 1919-20 was due in the main to increased exports to China owing to a rise in the price of silver.

The prosperity of the cotton textile industry in these years was thus due rather to world factors or, in other words, was rather a reflection from the hectic world-wide boom than to natural development. Although the rise in the sterling value of the rupee at the outset of the period encouraged imports into India, it did not appreciably affect exports which, consisting as they did mainly of raw materials, were able to find buyers at almost any price. In these circumstances, the consumption of Indian manufactured goods was not greatly affected by the high range of prices which, after a fall at the end of 1918, again rose, the highest price reached being 31 annas per pound for longcloth in January and July, 1920 and 26⅞ annas per pound for 20s yarn in January, 1920. At the end of 1921, the price of longcloth was 26½ annas per pound and of yarn 19⅞ annas per pound. Cotton fell steadily throughout, the average price of Broach cotton per candy being Rs. 536 in 1919, Rs. 460 in 1920 and Rs. 342 in 1921, the widening difference between the price of the raw material and the finished product working greatly to the advantage of the industry.

In the abnormal conditions of the period immediately following the war, the imports of yarn and piecegoods in 1919-20 fell to the lowest level touched for a generation, those of yarn being in fact the smallest recorded since 1866, 15 million pounds only, of which the United Kingdom contributed 81 and Japan 13 per cent. against percentages of 25 and 72 respectively in the previous year. The recovery made by the United Kingdom of a predominating share in the imports of piecegoods was equally marked, the share of Japan in the imports of grey, white and coloured goods falling to 11·8, ·9 and 5 per cent. respectively, the actual figures of imports being 62·7, 2·7 and 10·4 million yards and the total imports from that country being 75·9 million yards or 7·0 per cent. Imports showed a marked recovery in 1920-21, the imports of yarn rising to 47 million pounds of which 49 per cent. came from the United Kingdom and 43 per cent. from Japan. In imports of piecegoods also, largely owing to the exchange fluctuations to which reference is made below, Japan gained at the expense of the United Kingdom, her share

of the imports of grey goods rising to 25·9 per cent., of white goods to ·9 per cent., and of coloured goods to 3·3 per cent., the actual figures being 150·4, 3·8 and 16·0 million yards respectively, a total of 170 million yards or 11·3 per cent. Of the 57 million pounds of yarn imported in 1921-22, 70 per cent. came from the United Kingdom and 26 per cent. from Japan but, in imports of piecegoods, both countries suffered a severe setback, mainly as the result of the intensive campaign in favour of Indian made piecegoods reinforced by a further development in favour of home woven goods made from hand spun yarn, but partly also as the result of the exchange conditions of the previous year. The imports of 1921-22 were only slightly above those of 1919-20, of the 1090 million yards imported 70 per cent. coming from the United Kingdom and 8·3 per cent., which amounted to 90·3 million yards, from Japan. The Japanese imports were made up of 83·4 million yards of grey goods, 1·8 million yards of white goods and 4·9 million yards of coloured goods, the percentages of the total imports under each head being 13·1, ·6 and 3·6 respectively.

Reference has been made to the fluctuations in exchange during this period which undoubtedly contributed largely to the subsequent troubles of the industry. The sterling value of the rupee continued to appreciate until February 11th, 1920, when it reached its highest point, 2*s.* 11½*d.* As the exchange rose, orders not only for piecegoods but also for machinery were freely placed in the United Kingdom but, owing to the pressure at which British industry was then working, several months elapsed before the orders could be executed and deliveries made. By that time the rupee had fallen and importers were thus faced with very heavy losses. The effect on the mill industry of the import of machinery in these circumstances will be examined later. The effect on the industry of the crisis in the trade in imported piecegoods was mainly indirect. It represented the commencement of that lack of confidence on the part of all dealers in piecegoods, imported and of Indian manufacture alike, which has had such serious consequences particularly for the Bombay mill industry. At the time, however, the results were not apparent. The slump in India which, as pointed out in the Review of Indian Trade for 1920-21, may be said to have set in with the decline of the exports from this country from the high water mark of Rs. 31½ crores in March, 1920, did not touch the cotton mill industry for several months afterwards and the net profits of the mill industry in Bombay in 1921 were only Rs. 1·7 crores short of the huge total of Rs. 10·1 crores of the previous year.

As usual in a period of rising prosperity, wages lagged behind profits. The first substantial rise in wages was granted with effect from January 20th, 1919 when the 15 per cent. war bonus was increased to 35 per cent. and termed a special allowance on account of the high prices of food stuffs. The allowance was further increased to 55 per cent. on January 24th, 1920 for operatives on fixed wages and for winders, the allowance for piece workers other than winders being raised to 75 per cent. It was again raised to 70 per cent. on November 30th, 1920 for operatives on fixed pay and winders and to 80 per cent. for other piece workers.

It may here be mentioned that the hours of labour in cotton mills were reduced from twelve to ten in January, 1920.

Summary

7. The most striking feature which stands out from this brief survey of the cotton mill industry in India from the beginning of the present century to the commencement of the period of the present depression is its expansion in every direction but more especially in weaving as compared with spinning. The expansion of spinning has been the result of the expansion of weaving rather than the reverse. While spindles increased by 50 per cent. in the 22 years surveyed, looms increased by 223 per cent. At the commencement of the period, the Indian mill production of cloth was only a little over one-fifth of the net imports and about half the production of the hand loom industry. At the end of the period, it was 77 per cent. greater than the one and 50 per cent. greater than the other. In 1899-1900, Indian mills supplied 9 per cent. of Indian requirements of cloth against 64 per cent. met by imports and 27 per cent. by the hand loom industry. In 1921-22, the percentages were 42, 26 and 32. This is on the assumption that the exports of Indian piecegoods were all of mill manufacture—an assumption which is not entirely warranted owing to the large exports of hand woven goods from Madras but an allowance for these will only slightly affect the percentages. Other features hardly less important which the preceding paragraphs also bring out are the loss of the export trade in yarn, the gradually decreasing dominance of Bombay in the home industry, which entirely disappeared in regard to grey goods, and the increasing share of Japan in the import trade. The study of the conditions of the period from 1922 onwards to which we now proceed will show that all the four factors enumerated continued in operation and will enable some estimate to be formed of their relative importance.

CHAPTER III

NATURE AND EXTENT OF THE PRESENT DEPRESSION, 1923-1926

The position in 1925

8. It will be convenient before proceeding to examine the nature and extent of the depression in the mill industry which commenced in 1923 to bring the tables which have been given in the preceding paragraphs up to date. The position in 1925 was as shown below :—

TABLE IV

	Number of mills working	Number o spindles	Number of looms	Number of spindles to looms
	1924-25 (year ending August 31st)			
Bombay	79	3,378,365	70,755	48
Rest of India ..	196	4,715,436	77,859	61
Total ..	275	8,093,801	148,612	55
Percentage of Bombay to all India.	28·8	41·7	48	..

	Mill production of yarn in millions of lbs.	Mill production of cloth in millions of lbs.	Exports of yarn in millions of lbs.	Percentage of exports of yarn to total production	Exports of cloth in millions of yards
	1925-26 (year ending March 31st)				
Bombay	262	200	32*	4·7	165*
Rest of India	424	265			
Total ..	686	465	....	....	....
Percentage of Bombay to all India.	38·2	43	....	....	....

The most striking feature revealed by this table is the remarkable expansion of the upcountry mill industry in the last four years. While there was a decrease of four in the number of mills actually working in Bombay, there was an increase of 34 in the number of mills working in upcountry centres and the fact should not be overlooked that there existed in 1925 another 20 mills in upcountry centres which were idle and that 43 mills were reported to be in course of erection that year. Both spindles and looms increased much more rapidly in upcountry centres than in Bombay, the increase in the number of spindles in upcountry centres being 23 per cent. against 11 in Bombay and of looms 28 per cent. against 12. It will be seen that under every head in the table, Bombay has entirely lost its dominating position, the greatest change being in the production of yarn of which, in 1921-22, the share of Bombay was 50·3 per cent. against only 38·2 per cent. in 1925-26. The Bombay figures of production were, of course, seriously affected

* Exports by sea only.

by the strike of some 2½ months' duration from September to December, 1925 as were those of 1923-24 by the strike of some six weeks from January to March, 1924. The figures for upcountry mills for 1923-24 are seriously affected by the strike of two months duration in Ahmedabad from April. In these circumstances, a more correct representation is given by taking the figures for 1924-25, a year in which there were no strikes in Bombay or Ahmedabad.

These are as follows :—

TABLE V

—	Number of mills working	Number of spindles	Number of looms	Number of spindles to looms
	1923-24 (year ending August 31st)			
Bombay	79	3,330,065	70,204	47
Rest of India	195	4,531,039	76,249	59
Total ..	274	7,861,104	146,453	53
Percentage of Bombay to all India.	28·8	42·3	47	....

—	Mill production of yarn in millions of lbs.	Mill production of cloth in millions of lbs.	Exports of yarn in millions of lbs.	Percentage of exports of yarn to total mill production	Exports of cloth in millions of yards
		1924-25 (year ending March 31st)			
Bombay	327	220	46	6·3	230
Rest of India	392	239			
Total ..	719	459	....	....	....
Percentage of Bombay to all India.	45·5	47·9	....	....	....

Even when the fullest allowance is made for the strikes in Bombay, the figures show the increasing importance of the upcountry mills in the production both of yarn and cloth. Except for a very slight increase in the production of yarn in Bombay in 1922, the production of yarn and cloth in Bombay was in no year in this period as high as it had been in 1921. On the other hand, the production of yarn and cloth in upcountry centres increased by 23 and 35 per cent. respectively, although the number of spindles and looms increased only by 12 and 28 per cent., a fact which points to the increasing efficiency of the upcountry mills. The production of grey goods in upcountry mills in 1925-26 was 848 million yards against 566 million yards for Bombay, the corresponding figures for 1924-25 being 777 million yards against 605 million yards. The figures for coloured goods were 305 million yards for Bombay and 235 million yards for upcountry centres, as compared with 110 million yards for the latter in 1921-22. We would emphasize at this early stage of our Report the importance of the marked advance of the upcountry mills in the last four years, the full significance of which we shall endeavour to bring out later.

We deal with exchange fluctuations at a later stage. It will suffice to mention here that the sterling value of the rupee after falling to 1*s.* $3\frac{5}{32}$*d.* in April, 1922 appreciated steadily to 1*s.* 6*d.* in October, 1924 and has remained fairly steady at that level ever since. The yen exchange, on the other hand, fell from Rs. 207 per 100 yen in July, 1921 to Rs. 107 in January, 1925, since when it has risen to Rs. 135.

The figures of exports during this period present no special features. The exports of yarn by land and sea continued to decline, falling from 63·5 million pounds in 1922-23 to 46·3 million pounds in the following year and to 45·6 million pounds in 1924-25. In 1925-26, for which figures of export by land are not available, the exports by sea only were 32 million pounds. In the first eight months of 1926-27, for which figures of export by sea only are available, they were 29·5 million pounds, a distinct advance on the figures for the corresponding period of the two previous years though the value was almost exactly the same as in 1925-26 and slightly lower than in 1924-25. Exports of piecegoods advanced from 186 million yards in 1922-23 to 229 million yards in 1924-25 but fell in 1925-26 to 165 million yards (figures for exports by sea only). In the first eight months of the current year, for which again only figures of exports by sea are available, they returned almost exactly to the 1924-25 level, the total exports being 121·7 million yards.

In the home market, the price of standard long cloth and of yarn continued steady at the outset of this period. The price of longcloth in January, 1922 was 26 annas per pound. It reached its highest point, $27\frac{1}{2}$ annas per pound, in July of that year since when it has declined steadily to $13\frac{1}{2}$ annas per pound at the time of writing. The price of 20s yarn which was $18\frac{1}{16}$ annas per pound in January, 1922 fell steadily throughout and at present stands at $8\frac{3}{4}$ annas per pound. Cotton, on the other hand, rose from an average of Rs. 479 per candy in 1922 to Rs. 510 in 1923 and Rs. 560 in 1924. The effect on the mill industry of the increased cost of the raw material in combination with a fall in the price of the manufactured articles will be obvious. The price of raw cotton fell steadily throughout 1925 for which year it averaged Rs. 432. There was a further slight fall in the first eight months of last year which the heavy American crop converted into a very steep one, the price of Broach cotton per candy falling from Rs. 327 in September to Rs. 246 at the time of writing. Mention should be made of the two attempts to corner cotton in Bombay in February and September, 1922, both of which were unsuccessful but, as a result of which, the managing agencies of seven mills in all changed hands, two after the first and five after the second attempted corner.

The nature of a boom and depression

9. No better description of the nature of a trade cycle could be given than that which has recently appeared in a valuable pamphlet entitled "The Facts of Industry; the Case for Publicity" published in England last year and which we, therefore, make no apology for reproducing *in extenso*.

"The originating cause of a boom, either in a particular trade or in industry generally, may be quite small. All that is needed is that the immediate demand should slightly exceed the available supply, a state

of things which may be due to little more than the exhaustion of the stocks left over to be liquidated at a considerable loss after a previous period of over-production. The moment, however, this excess of demand over supply becomes effective, a series of cumulative consequences begins. Retailers press merchants for supplies, merchants ply manufacturers with orders and press for speedy delivery. Manufacturers increase their production and begin to compete with each other for raw materials. The prices of these last begin to rise, for the supply of raw material is apt to be relatively inelastic. Wages also begin to rise, the increase being even greater than is superficially apparent if extensive overtime is worked in order to complete urgent orders in the minimum possible time. Industries making immediately consumable goods launch out upon schemes of capital extension, thus drawing the constructional trades into the orbit of the boom."

"The rises in costs, wages and prices which quite soon take place in themselves tend to neutralise the demand for goods which started the boom. But they induce optimism rather than pessimism as to the future in the minds of the business community. The merchant sees the opportunity of big profits on a rapid turnover on a rising market and places orders freely. The manufacturer also feels justified in taking risks while the demand for his product continues to be eager and the prices he can obtain continue to improve. He is apt to overlook the alarming rate of increase in his costs and the burden which will be laid upon his business, if his roseate expectations are falsified by the extensive capital commitments he is making. Sooner or later the inevitable turning point at which supply shoots ahead of effective demand is reached. By this time, however, it too often happens that industry has received an impetus which cannot quickly be checked. Orders have been placed for some time ahead; extensive advance contracts for materials have been placed; new factories and workshops are in course of erection. The bottom falls right out of the market. A long depression sets in, which lasts until the accumulated stocks have been liquidated, often at ruinous loss; until costs and wages have been forced down; until the capital of many industrial concerns has been written down to wipe out their losses and to make it correspond with their real earning power in more normal times. This depression is itself likely to be more prolonged and more intense than it need be. For just as the boom creates excessive optimism in the minds of the business community, so a depression breeds excessive pessimism. Dealers refrain from placing orders, even while prices remain at very low levels, until the market becomes denuded of stocks. When in fact they do place their orders, there may be a shortage of supplies and the cyclical process will begin again. These psychological features which exaggerate the trade cycle beyond all economic necessity have been concisely summed up by Sir Josiah Stamp (*Sunday Times*, December 13th, 1925):

"It is generally acknowledged that whatever may be the predisposing causes of trade fluctuation, whether such natural events as harvests or financial changes, psychological features are also important in exaggerating them. One of these subjective features is the tendency to miscalculate

on the part of a number of people acting separately as to the existing stocks of a product, as to the rate of production of all taken together, and as to the aggregate change impending. Each person is liable to consider the total market from his own point of view, and is optimistic about the marketability of his contribution towards it. This tends to excessive production in times of optimism and excessive holding up in times of pessimism, to exaggerate unnecessarily both boom and depression. Actual knowledge of the rapidity of change in production would tend to correct this aggregated miscalculation; to introduce steadily growing caution at an earlier point on the upward curve instead of the present crescendo of optimism; to introduce on the downward grade increasing optimism instead of waiting for unreasoning pessimism to spend itself'.

The boom and depression in India

10. The essential features mentioned in this description of a trade cycle were apparent in the cotton mill industry in India in this and the preceding periods. There was an "alarming rate of increase" in costs of production and wages increased by rapid advances to from 70 to 80 per cent. over the pre-war level. New mills were erected, though not in Bombay where, fortunately as events proved, municipal restrictions prevented after 1919 any expansion except in the direction of increasing the looms and spindles in existing mills. Perhaps the most striking example of undue optimism which is generated in a boom period is to be found in the history of an upcountry mill which was floated in 1921 with an authorised capital of Rs. 50 lakhs of which Rs. 40 lakhs were issued and subscribed. The mill commenced operations in January, 1923, with machinery 95 per cent. of which was second-hand and mostly from 30 to 60 years old. The mill was closed in July, 1925, and was sold for Rs. 9 lakhs in August of that year. This is a somewhat exceptional case though the fact that there were, in 1925, 20 mills in upcountry centres not working and 43 still in course of erection shows that it is not a unique instance of unfulfilled hopes. In Bombay, that aspect of a boom which finds concrete expression in the erection of new mills was perforce limited to changes in the managing agencies of existing mills which connoted the flotation of new companies with largely increased capital, the conversion of proprietary concerns into joint stock companies with a capital based on the valuations of the boom period, an increase of capital in one or two cases to provide for extensions and also, in a very few cases, the capitalisation of reserves by the issue of bonus shares. An examination of the balance sheets of the Bombay mills shows that about thirty mills were affected in one or other of these ways.

The figures of investment in mill machinery show the extent to which orders were placed for sometime ahead and the machinery arrived after the boom had burst. The value of imports in 1919 20 was Rs. 1·31 crores, in 1920-21 Rs. 3·67 crores, in 1921-22 Rs. 7·64 crores, in 1922-23 Rs. 8·49 crores, in 1923-24 Rs. 5·60 crores, in 1924-25 Rs. 2·68 crores, and in 1925-26 Rs. 2·35 crores. As regards other features of a boom mentioned in the extract we have quoted, it can

hardly be said that much progress has been made in the liquidation of stocks even at "ruinous prices."

The statistics for all India show that the capital investment in the industry almost doubled between 1917-18 and 1921-22, the figures being Rs. 20·84 crores and Rs. 40·98 crores respectively. It is worthy of mention that whilst the paid up capital of mills in British India fell slightly after 1921-22, that of mills in Indian States continued to advance, the paid up capital of 34 mills in 1921-22 being Rs. 1·82 crores and that of 51 mills in 1923-24 being Rs. 4·88 crores.

Stocks of cloth in Bombay in December, 1922, were 128,000 bales. The highest figure recorded in 1923 was 177,000 bales which fell to 92,000 bales as the result of the strike at the beginning of 1924, to rise to 185,000 bales in July, 1925. The strike at the end of that year reduced them to 79,000 bales in February, 1926, but they again rose to 159,000 bales in September, since when there has been a fall to 118,000 bales at the end of November, 1926. The figures of stocks of yarn followed much the same course, the stocks in December, 1922, being 42,200 bales, rising to 73,000 bales in June, 1923, and falling after the strike to 26,000 bales in May, 1924. They were at their lowest in November, 1925, and were back again to 40,000 bales that is slightly below the level at the beginning of the period. The reason for the failure to liquidate stocks is that, at any rate until very recently, and then only in respect of Bombay, the depression in India has not been accompanied by any curtailment of production, except that consequent on strikes, which again can only be attributed to the fact which will become apparent from the discussion in a subsequent paragraph that the depression has not been felt so acutely in upcountry centres as it has been in Bombay. This in itself would have rendered combined or even general action in regard to curtailment of production impossible.

As for the "forcing down" of costs and wages, it is undoubtedly the case that the millowners have endeavoured to reduce their costs as much as possible, but their efforts to reduce wages have not proved successful in Bombay. There has been no change in wages in the Bombay industry during the period under review, except that the yearly bonus of one month's wages which had been paid during the boom years was discontinued at the beginning of 1924, causing the unsuccessful strike in January of that year. An attempt to reduce wages by 11½ per cent. in September, 1925, was followed by the strike of 2½ months' duration to which reference has already been made and which was terminated by the millowners agreeing, on the removal of the excise duty, to retain wages at their old level. Wages were reduced by 15½ per cent. in Ahmedabad in June, 1923, in spite of a strike of some ten weeks' duration.

Until very recently there was no writing down of capital but a number of mills have gone into liquidation. We have carefully examined every case, which has been brought to our notice, of mills which have gone into liquidation since the depression commenced. There were five of these in Bombay, seven in Ahmedabad and six in other centres. We are satisfied that no mill in India which could be regarded as run with fair

efficiency and economy has up to the present been forced into liquidation as the result of the depression. None of the mills which has so far gone into liquidation had the smallest chances of surviving except in boom conditions. A study of the evidence we received at Ahmedabad will be found instructive on this point. A long list of mills which had gone into liquidation in that and adjacent centres was placed before us but in almost every case, there was very definite evidence that the liquidation was the result of incompetence and inefficiency and, in some instances, of dishonesty.

None of the features which are inseparable from a trade depression has been more apparent in India than the unwillingness of dealers to place forward orders even at the present low level of prices. Throughout the course of our tour round the principal markets, we were informed that stocks both of Indian and imported piecegoods were abnormally low and that there was very little likelihood of their being increased in the near future. It is, in our view, doubtful if they will ever revert to their old level, for dealers have discovered that there is no reason why the burden of financing them should rest on their shoulders when it can be transferred to the mills.

External trade during this period

11. The figures of imports in this period will be examined in detail in a later chapter in which we discuss the nature and extent of the competition of imported yarn and piecegoods with those of Indian manufacture. All that need be said here in regard to their bearing on the depression is that, as will be seen from the following tables, the imports of Japanese piecegoods continued steadily to increase throughout. The figures for yarn are as follows :—

TABLE VI

	Total in millions of lbs.	United Kingdom	Percentage	Japan	Percentage
1922-23	59·3	31·0	52	26·5	45
1923-24	44·6	21·7	49	20·4	46
1924-25	55·9	20·7	37	32·3	57
1925-26	51·6	15·9	31	33·5	65
1926-27 (First six months) ..	25·8	11·2	43	13·3	51

The figures for piecegoods are as shown below :

TABLE VII

	Total in millions of yards	United Kingdom	Percentage	Japan	Percentage
1922-23	1,593	1,453	91·2	107·7	6·8
1923-24	1,485	1,318	88·8	122·6	8·2
1924-25	1,823	1,613	88·5	155·8	8·5
1925-26	1,563	1,287	82·3	216·8	13·9
1926-27 (First six months) ..	928	781	84·2	107·8	11·6

Extent of the depression

12. It has, we think, been established in the preceding paragraphs that the depression in the cotton mill industry in India, especially in Bombay, and to the extent that it prevails elsewhere, presents in the main all the characteristics usual in a trade depression. We now come to an examination of the question of the extent to which the depression has affected the different centres in India, with which is closely connected the question whether it has affected them all alike. The statement below which has been prepared by Messrs. A. F. Ferguson and Co., Chartered Accountants of Bombay, shows in succinct form the present financial condition of the mill industry in Bombay.

TABLE VIII

The Bombay cotton mill industry

Year	Capital paid-up	Reserves including carry forward	Original cost of land, buildings and machinery	Land, buildings and machinery after depreciation
1	2	3	4	5
	Rs.	Rs.	Rs.	Rs.
1917	7,65,67,395	2,36,35,705	17,98,21,456	12,12,46,916
1918	8,10,45,715	3,49,59,777	19,52,73,733	12,76,21,853
1919	9,40,10,530	3,78,77,058	20,94,82,990	12,89,11,504
1920	16,98,67,485	6,53,24,223	33,50,48,254	23,70,93,186
1921	17,83,11,137	9,80,94,780	38,08,54,759	26,23,30,072
1922	17,96,28,996	12,44,45,090	42,94,89,978	29,54,90,301
1923	19,18,62,213	13,43,11,230	46,54,95,302	31,77,81,243
1924	19,28,15,936	12,02,68,303	46,76,48,463	31,56,45,595
1925	19,20,96,278	10,45,82,674	46,72,00,686	31,17,58,963

Year	Annual depreciation written off	Net profit or loss	Dividend	Percentage of dividends to paid-up capital
1	6	7	8	9
	Rs.	Rs.	Rs.	
1917	85,65,934	3,02,06,860	1,69,62,045	22·2
1918	87,87,908	2,28,07,546	1,91,85,613	23·7
1919	1,44,39,246	6,15,66,648	3,77,20,074	40·1
1920	1,63,75,066	10,10,63,174	5,98,15,856	35·2
1921	1,81,78,737	8,46,44,605	5,34,78,623	30·0
1922	1,38,41,139	3,87,51,591	2,94,44,334	16·4
1923	75,59,745	33,12,933	93,69,467	4·9
1924	42,88,809	*91,69,863*	60,84,686	3·2
1925	31,86,932	*1,33,64,654*	43,11,006	2·2

Year	Reserves	Provident fund	Carry forward	Number of mills
1	10	11	12	13
	Rs.	Rs.	Rs.	
1917	80,96,030	1,07,893	50,40,892	63
1918	38,23,022	48,692	*2,59,781*	64
1919	1,90,36,873	2,06,414	46,03,287	67
1920	3,18,18,035	3,02,519	91,26,764	80
1921	3,32,60,455	3,37,813	*24,32,286*	80
1922	1,38,03,308	63,402	*45,59,453*	80
1923	*9,72,092*	....	*54,84,442*	81
924	*63,67,302*	....	*88,87,247*	79
1925	*63,41,589*	....	*1,13,34,071*	79

Note.—Figures in italics indicate :

Column 7, Net loss.

Column 10, Withdrawals from reserves.

Column 12, Balance loss carried forward.

We should explain that we have given this statement here in preference to that submitted by the Bombay Millowners' Asssociation in reply to our questionnaire as it gives the actual facts, whereas the statement submitted by the Millowners' Association which we attach as Appendix V, gives the position as it would be if full allowance had been made for depreciation in 1923, 1924 and 1925. As full allowance for depreciation was not made in all cases in some of the earlier years of the period, notably in 1918, it hardly seems correct to give a statement which has not been drawn up on the same principles throughout. We attach as Appendix VI a table prepared by Messrs. A. F. Ferguson and Co., which shows what the percentage of dividend would have been from 1917 onwards if it had been worked out on the original cost of land, buildings and machinery and also what the annual amount of depreciation written off would have been if it had been calculated at 2½ per cent. on buildings and 5 per cent. on machinery respectively, on the original cost. It would have been helpful for purposes of comparison if the Millowners' Association had been able to furnish us with a statement drawn up on similar lines for the mills for which information was available for every year from 1917 to 1924. There were about sixty of these. The statement we give above brings out clearly the effects of the flotations of the boom period, but the picture would, in our view, be in truer perspective if the largest flotation of that period, involving as it did only five mills with a

total paid up capital of Rs. 6 crores, were omitted from it. If this change is made, the figures are as given below :—

TABLE IX

Year	Capital paid up	Reserves including carried forward	Original cost of land, buildings and machinery	Land, buildings and machinery after depreciation
1	2	3	4	5
	Rs.	Rs.	Rs.	Rs.
1920	12,03,29,632	6,52,29,146	27,54,31,388	18,04,96,705
1921	12,83,30,944	9,58,38,872	31,95,02,505	20,58,82,398
1922	12,96,28,99	11,77,80,575	36,67,72,947	23,96,18,691
1923	13,18,62,213	13,54,41,321	39,99,17,821	26,11,27,519
1924	13,28,15,936	12,20,09,896	40,00,46,335	25,91,43,550
1925	13,20,96,278	10,94,41,144	39,77,12,162	25,56,38,542

Year	Annual depreciation written off	Net profit or loss	Dividend
	6	7	8
	Rs.	Rs.	Rs.
1920	1,45,59,399	9,57,05,546	5,66,01,716
1921	1,62,94,542	7,87,37,844	5,19,78,623
1922	1,19,00,298	3,49,95,401	2,79,44,334
1923	54,81,409	39,17,369	93,69,467
1924 ..	21,12,483	*60,67,334*	60,84,686
1925	9,18,908	*1,08,46,160*	43,11,006

Year	Per cent. of dividends to paid-up capital	Reserves	Provident fund	Carry forward	Number of mills
	9	10	11	12	13
		Rs.	Rs.	Rs.	
1920	47·0	3,18,18,035	3,02,519	69,83,276	72
1921	40·5	2,72,60,455	3,27,613	*8,28,847*	72
1922	21·5	98,03,308	41,402	*27,93,643*	72
1923	7·1	*9,72,092*	..	*44,65,046*	76
1924	4·5	*63,67,302*	..	*57,63,108*	74
1925	3·3	*63,41,589*	..	*87,74,603*	73

Note—Figures in italics indicate—
Column 7—Net loss.
,, 10—Withdrawals from reserves.
,, 12—Balance loss carried forward.

We now give similar statements for Ahmedabad which have also been drawn up by a chartered accountant.

TABLE X

The Ahmedabad otton mill industry

Number of mills	Year	Paid-up capital	Reserves including carried forward	Block account original value	Block account after depreciation
1	2	3	4	5	6
		Rs.	Rs.	Rs.	Rs.
50	1921 ..	3,01,76,893	2,47,81,353	7,51,73,944	4 99,16,074
49	1922 ..	3,00,86,973	3,11,29,577	9,07,85,014	5,12,16,266
47	1923 ..	2,86,31,157	2,76,18,529	9,00,93,721	5,95,12,398
50	1924 ..	3,26,84,526	3,43,99,595	10,67,91,790	7,16,44,485
48	1925 ..	3,25,68,873	3,65,87,441	10,30,35,987	6,71,69,966

Number of mills	Year	Annual depreciation written-off	Net profit	Dividend	Percentage
1	2	7	8	9	10
		Rs.	Rs.	Rs.	
50	1921 ..	38,24,927	2,51,56,230	1,83,30,205	$60\frac{11}{15}$
49	1922 ..	39,02,639	1,47,02,204	1,17,34,405	$30\frac{9}{10}$
47	1923 ..	22,48,927	35,24,611	34,77,056	$12\frac{1}{7}$
50	1924 ..	29,02,493	49,67,749	41,53,121	$12\frac{23}{32}$
48	1925 ..	30,97,421	55,96,238	46,71,343	$14\frac{11}{32}$

Number of mills	Year	Reserves	Carried forward	Loss	Agent's commission given up to declare dividends	Reserves deduct
1	2	11	12	13	14	15
		Rs.	Rs.	Rs.	Rs.	Rs.
50	1921 ..	65,64,133	2,16,505	3,998	....	....
49	1922 ..	27,27,832	3,11,264	53,790	52,638	42,000
47	1923 ..	3,58,596	2,27,052	7,16,035	1,58,661	2,73,515
50	1924 ..	8,27,799	2,59,806	9,01,038	4,69,709	26,000
48	1925 ..	9,38,753	2,38,042	5,17,898	1,17,522	47,547

TABLE XI

Number of mills	Year	Particulars	Amount	Particulars	Amount	Percentage of column No. 4
1	2	3	4	5	6	7
			Rs.		Rs.	
50	1921 ..	Paid-up capital ..	3,01,76,893			
		Add reserves ..	2,47,81,353	Net profit ..	2,51,56,230	
		,, depreciation fund.	2,52,57,870	*Deduct* loss ..	3,998	
			8,02,16,116	,,	2,51,52,232	$31\frac{7}{20}$
49	1922 ..	Paid-up capital ..	3,00,86,973	Net profit ..	1,47,02,204	
		Add reserves ..	3,11,29,577	*Deduct* loss ..	53,790	
		,, depreciation fund.	3,95,68,748			
			10,07,85,298		1,47,48,414	$13\frac{17}{50}$
47	1923 ..	Paid-up capital ..	2,86,31,157	Net profit ..	35,24,611	
		Add reserves ..	2,76,18,529	*Deduct* loss ..	7,16,035	
		,, depreciation fund.	3,05,12,323			
			8,67,62,009		28,08,576	$3\frac{9}{25}$
50	1924 ..	Paid-up capital ..	3,26,84,526	Net profit ..	49,67,749	
		Add reserves ..	3,43,99,595	*Deduct* loss ..	9,01,038	
		,, depreciation fund.	3,51,47,305			
			10,22,31,426		40,66,711	$3\frac{9}{10}$
48	1925 ..	Paid-up capital ..	3,25,68,873	Net profit ..	55,96,238	
		Add reserves ..	3,65,87,441	*Deduct* loss ..	5,17,898	
		,, depreciation fund.	3,59,26,021			
			10,50,82,335		50,79,340	$4\frac{4}{5}$

These two statements reveal in very striking fashion the difference between the conditions which have prevailed in the last four years in the two main centres of the cotton mill industry in India. They show that conditions in Bombay have steadily deteriorated since 1922. The net profit fell from Rs. 388 lakhs in 1922 to Rs. 33 lakhs in 1923 and became a loss of Rs. 92 lakhs in 1924 and 134 lakhs in 1925. Reserves were drawn on to an extent of Rs. 9·7 lakhs in 1923, Rs. 63·7 lakhs in 1924 and Rs. 63·4 lakhs in 1925. The allowances for depreciation in these three years fell short of the normal allowance by Rs. 106 lakhs, Rs. 140 lakhs and Rs. 154 lakhs. Of the 59 mills in Bombay for which we have obtained the latest balance sheets, 43 made a loss and 16 a profit in 1925. Thirteen of the latter declared dividends which, in the case of 11, varied from 5 to 20 per cent. The remaining

two paid a dividend of 34 and 130 per cent., respectively, the latter being on a capital of Rs. 2 lakhs only. The dividends were in four cases paid either partially or wholly out of reserves. Ahmedabad reached the lowest point of the depression in 1923, a year in which there was a strike of over two months' duration, and has steadily improved its position since then, the average dividends on the paid up capital of all mills being 12¼ per cent. in 1923, $12\frac{23}{32}$ per cent. in 1924 and $14\frac{11}{32}$ per cent. in 1925. The average dividends on paid up capital, reserves and depreciation funds together in three years of what the Bombay mill industry regards as the worst depression the mill industry in this country has experienced have worked out at $3\frac{9}{25}$ per cent., $3\frac{9}{10}$ per cent. and $4\frac{4}{5}$ per cent. The significance of these figures becomes even more apparent when it is remembered that the Ahmedabad system of remuneration of managing agents is different from that which prevails in Bombay. The great majority of the Ahmedabad managing agents are remunerated by a commission of 3½ per cent. on sales, whereas the great majority of the Bombay millowners receive a commission of 10 per cent. on profits which in years of depression means that the agents' commission is limited to the comparatively small minimum provided in the agreement. If the net profits for both Ahmedabad and Bombay were taken before the deduction of the managing agents' commission, the comparison would be even more favourable to Ahmedabad. It must, however, be remembered in considering these figures that 1923 was a year in which there was a strike in Ahmedabad and that both 1924 and 1925 were years of strikes in Bombay.

As for upcountry centres other than Ahmedabad, it is perhaps not generally realised how scattered the cotton mill industry in India is outside Bombay and Ahmedabad. Of the 274 mills actually working in India in 1925, 77 were in Bombay and 58 in Ahmedabad, whilst of those which were not working or were in course of erection, 8 were in those two centres. The following table shows the distribution of mills throughout India :—

TABLE XII

—	Mills working				Mills idle	Mills in course of erection.
	Spinning only	Weaving only	Spinning and weaving	Total		
Bombay	6	1	70	77	5	..
Ahmedabad	8	8	42	58	2	1
Bombay Presidency other than Bombay and Ahmedabad (*a*)	4	4	16	24	6	10
United Provinces (*b*) ..	11	..	9	20	2	4
Madras (*c*)	8	1	7	16	1	11
Central Provinces (*d*) ..	..	..	7	7	..	..

(*a*) Sholapur 5, Surat 5, Broach 5.
(*b*) Cawnpore 10.
(*c*) Madras 4, Madura 5, Coimbatore 5.
(*d*) Nagpur 2, Wardha 3.

—	Mills working				Mills idle	Mills in course of erection
	Spinning only	Weaving only	Spinning and weaving	Total		
Bengal (*e*)	4	2	8	14	1	10
Delhi	..	1	3	4	..	..
Punjab	..	..	3	3	1	1
Berar	..	..	3	3	..	1
Baroda (*f*) ..	4	1	7	12	..	4
Ajmere-Merwara	..	..	3	3	..	..
Hyderabad	..	..	4	4	..	1
Indore	..	..	6	6	1	..
Gwalior	..	..	3	3	..	..
Kathiawar	..	1	3	4	..	..
Sangli	..	1	..	1	..	..
Kolhapur	1	..	..	1	..	..
Cambay	..	..	1	1	..	..
Rajnandgaon ..	..	..	1	1	..	..
Mysore (*g*)	2	2	2	6	..	..
Kishangarh	1	..	..	1	..	..
Travancore and Cochin ..	1	1	1	3	..	..
Pondicherry	..	..	2	2	1	..

(*e*) Calcutta 8, Dacca 3.
(*f*) Baroda 3, Sidhpur 3, Kalol 4.
(*g*) Bangalore 5.

It will be obvious from the above table that only the most general survey of the conditions prevailing in the different upcountry centres can be given and that it is not possible for us to include a statement similar to those drawn up for Bombay and Ahmedabad. We have, however, obtained balance sheets for the last financial year for as many of these mills as possible and a tabulation of these gives the following result:—

TABLE XIII

Number of mills	Capital	Reserves	Original cost of land and buildings and machinery	Net profits (depreciation, income tax and supertax not taken into account)	Dividend	Percentage of dividends to capital
	Rs.	Rs.	Rs.	Rs.	Rs.	
62	12,62,10,954	16,21,45,80-	24,03,76,214	1,24,88,023	87,58,410	6·9

We would emphasise that, in considering these figures, the large differences in local conditions and also in the standard of management and efficiency of the various mills must be borne in mind. There is a far greater uniformity in both respects in Bombay and Ahmedabad than is to be found in upcountry centres. The best upcountry mills are no

whit behind and are possibly in some respects more advanced than the best mills in Bombay and Ahmedabad, but in some upcountry centres we found mills which compare very unfavourably with even the worst mills in those cities.

The above statement together with the detailed examination of the balance sheets of upcountry mills brings out that, broadly speaking, conditions in those centres during the last four years have approximated more closely to those in Ahmedabad than to those in Bombay. Efficiently managed mills in upcountry centres which have both spinning and weaving departments have with very few exceptions continued to pay dividends throughout the whole of the period. All the five mills in Sholapur, the most important centre in the Bombay Presidency outside Bombay and Ahmedabad, have paid satisfactory dividends throughout. Of the twelve mills in the Madras Presidency for which we have obtained balance sheets all except three very small mills, which are spinning mills only, have paid dividends, as have also the two mills in Mysore. Of the two mills in Nagpur, one is, as it always has been, in an exceptionally strong position and the other, a new mill which started work at the end of 1923, made a profit during the year ending 31st March 1926, though it was not in a position to declare a dividend. The position in Cawnpore is not quite so satisfactory. Of the four mills in that centre from which we have obtained balance sheets, one paid a dividend in 1923, 1924 and 1925 and one in the two latter years. Of the others, one is a new mill started in the war period and the other a boom flotation. The largest mill in Delhi paid a dividend of 32 per cent. for 1925. The leading mill in Indore paid a dividend of 47½ per cent. for 1924 and a dividend of 31½ per cent. for 1925. These figures are sufficient to show what was generally admitted in evidence we received that upcountry mills with the exception of those which have spinning departments only are, generally speaking, in a much better position than the Bombay mills. Almost all the mills, which have spinning departments only except for striking exceptions in Madras, have been badly hit and have been unable to pay dividends for the last three years.

The demand for protection

13. Another possible criterion of the comparative prosperity of the mills in Bombay, Ahmedabad and upcountry centres is to be found in the intensity of the demand for protection. It is important to note that the Ahmedabad Millowners' Association in their oral evidence stated that their demand for 12½ per cent. protection was not limited to the same grounds as those advanced by the Bombay Millowners' Association but was mainly on the general ground of the desirability of protection as it would enable the mill industry in this country to establish itself firmly in the manufacture of finer qualities of cloth. The Baroda Millowners' Association, as was to be expected from the situation of the State, followed the lead of the Bombay and Ahmedabad Associations, though the representative of the Association who appeared before us stated that efficiently managed mills could work at a profit. Only two of the Calcutta mills supported the demand and one of those is in a

position to pay dividends. The demand for protection also secured the support of the four mills in Delhi, the position of the leading mill in which has already been commented on. The mill industry in Cawnpore also, through the medium of the Upper India Chamber of Commerce, gave general support to the case put forward by the Bombay Millowners' Association but, in spite of an invitation to do so, no mill submitted written or oral evidence and only one mill furnished us with its costs of production. In Madras, the representative of two of the leading mills in the Presidency informed us that he did not consider that the industry in South India could be described as being in a depressed condition. As regards the other upcountry mills, 25 are members of the Bombay Millowners' Association, but with the exception of three, we received no representation from any of them except in so far as that of the Bombay Millowners' Association may be said to cover them also. It will, we think, be sufficiently apparent that the demand for protection has not been as earnestly pressed from other centres as from Bombay and Ahmedabad.

CHAPTER IV

EXAMINATION OF THE SUGGESTED CAUSES OF THE DEPRESSION

I.—World Factors

(a) Altered relation between agrarian prices and general prices since 1920

14. We now proceed to examine the causes which have brought about the present depression in the cotton textile industry in India and we shall first deal briefly with those which appear to us to be of a world wide character. The Bombay Millowners' Association, in their reply to our questionnaire, held that the depression is not due to any extent to the operation of world factors, and that factors peculiar to India are mainly responsible for it. We are unable to accept this view. The present depression in the cotton textile industry—in fact in industry generally—is almost world wide, the most recent reports from Japan showing that even that country is not exempt from it. The extent of the depression in Lancashire is too well known to call for comment here. The depression has been acutely felt in the United States and in Brazil and it is worthy of mention that in June, 1924, the Tariff Commission in the United States presented a report to the Senate on the depression in the cotton cloth industry in that country. We reproduce in Appendix VII the major part of two articles which recently appeared in "The Economist" on the plight of the New England textile industries as we consider that they are of special interest as showing that the cotton textile industry in the United States in general is faced with problems very similar to those which it has to face in this country and that, in particular, the old established mills in the New England States are encountering much the same difficulties owing to the increasing competition of mills in new centres as are Bombay mills from the competition of upcountry mills. It would be surprising if such widespread depression did not suggest the influence, in addition to other causes, of a common factor. We received, for example, much evidence, including that of the Bombay Millowners' Association, to the effect that one of the main reasons for the present depression in the cotton industry was the reduced purchasing power of its chief customers, the agricultural classes. Many witnesses attributed this to the stabilisation of the rupee at 1*s.* 6*d.*, though as a matter of fact the depression in the industry dates from a period when the rupee was at 1*s.* 4*d.* We shall examine at a later stage the bearing of the exchange on the fortunes of the industry and would only point out here that, whatever the level of exchange, it is not probable that India with her intimate trade relations with the rest of the world could have escaped the reduction in the purchasing power of the agricultural classes as the result of a world wide movement of prices against the agriculturist such as appears to have taken place since 1920.

The terms on which manufacturing countries have been able to exchange their products for those of agricultural countries have been subject to change from time to time. In "A Study

of Industrial Fluctuation" published in 1915, Mr. D. H. Robertson held that an examination of the figures of British imports and exports from the beginning of the 19th century pointed to the conclusion that the normal tendency for the ratio of exchange to alter against the manufacturing and in favour of the agricultural communities was in force in the seventies, was suspended in the eighties and nineties of the last century and was once more on the whole triumphing at the time his book was written. There is other high economic authority such as that of Mr. J. M. Keynes* and Professor Taussig in favour of the view that, from the commencement of this century to the beginning of the war, the balance of advantage in international trade moved in favour of countries producing food stuffs and raw materials. In the United States, for example, the chart on page 202 of Volume V of the Evidence given before the recent Royal Commission on Indian Currency and Finance shows that from 1908 to 1915, agrarian prices were relatively higher than general prices. During the war period, the two moved more or less together, the rise in agrarian prices being checked by the controls in every direction which were then established. A study of such index numbers as are available and of the evidence given before the Royal Commission on Indian Currency and Finance supports the conclusion that, in the years immediately following the war, prices of agricultural products rose considerably higher than those of manufactured commodities but, since the great fall in prices in 1921, the position has been reversed and the latter have stood at a higher level than the former, so that a given unit of food stuffs or other agricultural products has been exchanged for a smaller unit of manufactured goods than was previously the case. The explanation for this is to be found in the fact that manufacturing industries are highly organised and are therefore in a stronger position to resist wage and price reductions than the agricultural population.

For a study of this question so far as it affects India, the material is to be found in the Annual Review of Indian Trade which gives figures showing the total values of imports and exports from 1913-14 onwards, their values on the basis of the declared values for 1913-14 and a comparison of the values on the basis of those for that year. The index figures of the values of imports and exports for the last six years on the basis of the declared values for 1913-14 are shown below :—

TABLE XIV

	1913-14	1920-21	1921-22	1922-23	1923-24	1924-25	1925-26
Imports ..	100	237	214	169	190	180	158
Exports ..	100	140	127	140	145	154	152

* The views of Mr. Keynes are to be found in the Economic Journal, Volume XXII (1912), page 630, *et seq.*, Volume XXXIII (1923), page 476, *et seq.* and in his "Economic Consequences of the Peace," page 8. Professor Taussig's paper on "Great Britain's foreign trade terms after 1900" is to be found in Economic Journal, Volume XXXIV, (1925). For Sir William Beveridge's dissent from Mr. Keynes's views, see Economic Journal, XXXIII, page 447, *et seq.*, and also Economica for February, 1924.

These figures show that, from 1920 to 1924, the prices of imported goods, which it is hardly necessary to mention consist mainly of manufactured articles, were on a much higher level than those of exports which consist mainly of food stuffs and raw materials. The two numbers approached each other closely for the first time in this period in 1925-26. The conclusion which the figures suggest is that in the disparity between agrarian and industrial prices is to be found one of the reasons why a succession of good monsoons has not resulted in a greater demand for manufactured articles. In particular, while the index number of the prices of imported cloth varied from 325 in 1920 to 210 in 1925, that of the price of commodities exported from India varied from 175 to 145 showing that the level of the former has remained high in relation to the latter.* The figures given above for the relative advance in the prices of exports and imports also suggest that the balance is once again moving in favour of the agriculturist, though agricultural prices in the past few months have displayed a tendency to weaken. We are fully alive to the dangers which lurk in all inferences based on index numbers but we think that the reduced purchasing power of the agriculturist, which we agree is one of the causes of the present depression, cannot be regarded as a factor peculiar to India.

(b) Cyclical character of trade

15. In paragraphs 9 and 10, we have explained the nature of a boom and a depression in trade and have shown that the boom and the depression in India present all the features which characterise what is known as the trade cycle. The point we would emphasize here is that conditions in India since the end of the war have been a replica of those elsewhere, and that, only in very exceptional circumstances, when a boom or a depression is in progress can any one country hope to escape its effects. These exceptional circumstances did not prevail in India and the financial, psychological and other features which produced the boom and the depression of the post-war period operated in the same way in this country as they did elsewhere. India is participating in the world depression as it did in the world boom and to that extent world conditions must be regarded as contributing to the present depression in this country.

(c) Cotton prices

16. It is perhaps hardly necessary to mention that the cost of the raw material is much the most important single item in the cost of production of cotton goods. Its importance can be gauged from the fact that with cotton at Rs. 290 per candy, it represents about 44 per cent. of the total production of standard grey long cloth, a percentage which rises to 56 when cotton is at Rs. 450 per candy. It was generally admitted in the evidence before us that the cost of the raw material of the Indian cotton industry is determined not by conditions in India itself but by the prices which rule for American cotton and it therefore seems necessary to examine the extent to which fluctuations in the prices of cotton, which

* In both cases the index numbers prepared by the Department of Commercial Intelligence have been reduced to the basis of 1914. The corresponding numbers for Indian cloth are 313 and 203 respectively.

in these circumstances, we cannot but regard as a world factor rather than one special to India, have contributed to the present depression. The influence of the American cotton crop on Indian cotton prices is brought out in the following table :—

TABLE XV

Year	Production of American cotton (excluding linters)	Year	Price of Indian cotton (Broach) Bombay per candy of 784 lbs.	Liverpool price of middling American cotton in pence per pound.
	Bales.		Rs.	
1920 ..	13,271,000	1921	342	11·89*
1921 ..	7,978,000	1922	479	11·37*
1922 ..	9,729,000	1923	510	14·92*
1923 ..	10,171,000	1924	560	17·66*
1924 ..	13,639,000	1925	432	13·76*
1925 ..	16,123,000	1926	346 (1st half year).	10·77*
1926 ..	18,350,000	July	340	
		August	349	* Year ending 31st August.
		September	327	
		October	275	
		November	256	
		December	248	

The reason for comparing the American crop of one year with the prices of the following Indian crop will be obvious. It will be seen that three short American crops sent the price of Indian cotton in 1924 up to the highest figure ever reached except in the entirely abnormal conditions of 1918 and that three large American crops have brought it down to a price which is more than Rs. 40 per candy below the average price for the last pre-war year. The difference between present conditions in this respect and those which have prevailed in the past can be gauged from the fact that, until a period of rising prices set in for cotton in 1910, the utmost limits in the variations in the price of Indian cotton for over 40 years had been between Rs. 190 and Rs. 252 per candy. That large fluctuations in the price of the raw material, following as they did on the still more violent fluctuations of 1917, 1918 and 1919 could not but seriously affect the cotton industry in India will be evident. At the outset of the depression, the industry was faced with rising cotton and almost stationary prices of cloth, whilst during the last two years cloth and cotton have fallen together. Neither set of conditions makes for prosperity and we hold that the fluctuations in the price of the raw material in recent years must be regarded as one of the most important causes of the condition in which the industry finds itself today.

Summary

17. It follows from this brief survey that there are three world factors, the altered relations between agrarian and general prices since 1920, the cyclical character of trade throughout the world and the course of American cotton prices which have contributed to the present depression in the Indian cotton textile industry.

CHAPTER V

EXAMINATION OF THE SUGGESTED CAUSES OF THE DEPRESSION

*II.—External Competition**

Introductory

18. The outstanding cause of the present depression in the cotton textile industry in India is held by the Bombay Millowners' Association to be "unfair competition from foreign competitors." As the Millowners' Association attach so much importance to this competition, we propose here fully to examine its nature and extent. It should be mentioned that, while the imports of yarn into India from all countries have shown a tendency to expand since the war, those of piecegoods have not done so and are still very much below their prewar level. For the five years previous to the war, the imports of yarn averaged 41·8 million pounds, the highest figure being 50·0 million pounds in 1912-13. For the five war years, they averaged 34 million pounds and for the seven postwar years they have averaged 47·2 million pounds, the highest figure being 59·3 million pounds in 1922-23. The imports of piecegoods for the five years preceding the war averaged 2,631 million yards, the highest figure being 3,197 million yards in 1913-14. For the five war years, they averaged 1,841 million yards and for the seven postwar years, they have averaged 1,449 million yards, the highest figure being 1,823 million yards in 1924-25. It is important to note, at the outset, that the Bombay Millowners' Association have dwelt almost entirely on competition from Japan. Competition from other countries has been mentioned incidentally, but it is clear from the trend of the evidence that it is not regarded as serious. It is, therefore, necessary for us to examine in detail only the nature and extent of the competition from Japan but we shall also comment on the character of the imports from other countries. We shall deal with these under the three heads, yarn, piecegoods, and other cotton manufactures.

Imports of yarn from Japan

19. The statement we attach as Appendix VIII shows the rapid growth of the cotton textile industry in Japan in recent years. For our present purpose, which is the examination of the nature of the imports from that country into India, it does not appear necessary to go back beyond 1920-21, the first year in which the imports of yarn from Japan exceeded five million pounds except in the abnormal year, 1918-19, in

* For the bulk of the information in regard to Japan which is given throughout our Report, we are very greatly indebted to Mr. W. B. Cunningham, His Majesty's Consul at Osaka.

which they were slightly over 20 million pounds. Since then they have fluctuated, the highest figure reached being in 1925-26, when they amounted to 33·6 million pounds. For the first six months of the current year they were 13·4 million pounds against 19·0 million pounds for the corresponding period of 1925-26 and 17·6 million pounds for that of 1924-25. Their character will be evident from the following table :—

TABLE XVI

Imports of yarn into India in thousands of pounds

	1920-21			1921-22		
	Total	U. K.	Japan	Total	U. K.	Japan
Greys 1s to 10s	217	58	..	91	1	20
Do. 11s to 15s	148	56	..	55	36	..
Do. 16s to 20s	6,993	67	4,511	6,555	1,511	4,843
Do. 21s to 25s	128	74	10	900	843	..
Do. 26s to 30s	3,436	1,377	1,934	4,063	2,751	1,311
Do. 31s to 40s	13,885	4,502	9,337	19,035	12,073	6,888
Do. 41s to 50s	1,429	1,045	384	2,517	2,328	189
Do. 51s to 60s	1,776	763	998	2,708	2,645	63
Do. 61s to 100s	850	842	8	2,742	2,742	..
Do. above 100s	37	37	..	135	135	..
Grey twofolds (doubles) ..	3,183	1,484	1,680	4,974	3,809	1,125
Total grey ..	32,082	10,305	18,862	43,775	28,874	14,439
White (bleached)	2,040	1,785	254	2,520	2,362	128
Coloured	11,805	10,865	49	10,011	8,385	..
Mercerised	1,280	319	957	794	436	348
Unspecified	127	123	..	24	17	..
Grand total ..	47,334	23,397	20,122	57,124	40,074	14,915

	1922-23			1923-24		
	Total	U. K.	Japan	Total	U. K.	Japan
Greys 1s to 10s ..	89	5	2	107	6	....
Do. 11s to 15s ..	36	36	....	102	9	....
Do. 16s to 20s ..	12,652	260	12,363	6,377	143	6,106
Do. 21s to 25s ..	449	404	42	231	116	104
Do. 26s to 30s ..	4,651	2,939	1,708	893	268	625
Do. 31s to 40s ..	21,061	10,747	10,241	12,943	3,085	9,838
Do. 41s to 50s ..	2,131	2,045	86	2,078	1,893	184
Do. 51s to 60s ..	1,772	1,771	1	2,490	2,490	....
Do. 61s to 100s ..	1,957	1,957	....	2,463	2,463	....
Do. above 100s ..	123	123	....	137	137	....
Grey twofolds (doubles) ..	4,063	2,877	1,185	3,434	1,037	2,377
Total grey ..	48,984	23,164	25,628	31,255	11,647	19,234
White (bleached) ..	1,894	1,773	117	2,650	2,268	382
Coloured ..	7,027	5,513	1	8,647	6,672	....
Mercerised ..	1,320	518	801	2,019	1,199	814
Unspecified ..	49	49	....	4	4	....
Grand total ..	59,274	31,017	26,547	44,575	21,790	20,430

	1924-25			1925-26			1926-27 (six months ending 30th Sept. 1926).		
	Total	U. K.	Japan	Total	U. K.	Japan	Total	U. K.*	Japan*
Greys 1s to 10s ..	99	2	15	80	1	29	60	..	..
Do. 11s to 15s ..	81	9	..	22	22	..	368	..	..
Do. 16s to 20s ..	6,629	378	5,928	4,201	415	3,752			
Do. 21s to 25s ..	168	119	49	168	157	10	167	..	..
Do. 26s to 30s ..	677	223	453	415	265	150			
Do. 31s to 40s ..	21,383	2,184	19,183	21,681	1,594	20,053	9,851	..	..
Do. 41s to 50s ..	1,983	1,783	199	1,288	944	344	4,853	..	..
Do. 51s to 60s ..	3,123	2,662	459	2,883	1,765	1,118			
Do. 61s to 100s ..	1,997	1,997	..	1,755	1,725	30			
Do. above 100s..	114	114	..	241	171	70			
Grey twofolds (doubles) ..	5,023	1,249	3,689	5,222	609	4,570	3,208	..	..
Total grey ..	41,277	10,720	29,975	37,956	7,668	30,126	18,007	..	..
White (bleached) ..	3,427	2,791	635	3,751	3,064	686	2,067	..	..
Coloured ..	8,482	6,213	42	7,108	4,803	197	3,176	..	..
Mercerised ..	2,664	997	1,661	2,845	330	2,515	2,576	..	..
Unspecified ..	57	38	12	27	24	1	10	..	..
Grand total ..	55,907	20,759	32,325	51,687	15,979	33,525	25,836	11,277	13,376

* Particulars not available.

The most striking feature of this table is the decline in the imports of Japanese grey yarn of counts under 30s. The figures are so remarkable that we make no apology for presenting them in another form.

TABLE XVII

	1s—15s 000s of pounds	16s—20s 000s of pounds	21s—25s 000s of pounds	26s—30s 000s of pounds
1920-21	*Nil*	4,511	10	1,934
1921-22	20	4,843	....	1,311
1922-23	2	12,363	42	1,708
1923-24	....	6,106	104	625
1924-25	15	5,928	49	453
1925-26	29	3,752	10	150
Imports from all countries for first eight months of 1926-27 in millions of pounds	1s to 20s	549	21s to 30s	199

An almost equally striking feature has been the gain of Japan at the expense of the United Kingdom in counts 31s to 40s and in grey twofolds which, it should be explained, consist mostly of 2/42s counts. Here again the figures deserve to be given separately.

TABLE XVIII

	1920-21		1921-22		1922 23	
	Total	Percentage of total imports between 31s and 40s	Total	Percentage of total imports between 31s and 40s	Total	Percentage of total imports between 31s and 40s
31s to 40s		(In thousands of pounds)				
United Kingdom	4,502	32·4	12,073	63·4	10,747	51·0
Japan	9,337	67·2	6,888	36·2	10,241	48·6
Twofold doubles						
United Kingdom	1,484	46·6	3,809	76·6	2,877	70·8
Japan	1,680	52·8	1,125	22·6	1,185	29·2

	1923-24		1924-25		1925-26	
	Total	Percentage of total imports between 31s and 40s	Total	Percentage of total imports between 31s and 40s	Total	Percentage of total imports between 31s and 40s
31s to 40s		(In thousands of pounds)				
United Kingdom	3,085	23·8	2,184	10·2	1,594	7·3
Japan	9,838	76·8	19,183	89·7	20,053	92·5
Twofold doubles						
United Kingdom	1,037	30·2	1,249	24·8	609	11·7
Japan	2,377	69·2	3,689	73·4	4,570	87·5

It may be mentioned that the last importations of Japanese yarn of counts under 30s into Bombay were in April 1926 when 40,000 pounds were imported. Almost exactly half the imports of yarn into India are imported into Bombay, Bengal receiving about one-quarter, Madras one-seventh and the remainder going to Burma and Sind.

We give below a table showing the quantities of yarn produced in Japanese mills for the last six years :—

TABLE XIX

Counts	1920	1921	1922	1923	1924	1925
		(In thousands of bales				
1s to 20s	1,250	1,321	1,596	1,523	1,354	1,579
21s to 30s	197	175	201	197	225	252
31s to 40s	183	152	208	217	250	295
Above 40s	187	163	223	234	244	311
Total ..	1,817	1,811	2,228	2,171	2,073	2,437

Extent of competition in yarn

20. As the Indian Fiscal Commission pointed out, experience as well as theoretical reasoning shows that the price of Indian manufactured cloth is influenced by the price of imported cloth even when the two classes are not in direct competition. This is obviously true also of yarn but no more difficult problem has been presented to us than that of the extent to which the price of yarn manufactured in India is determined by the price of imported and more especially of Japanese yarn. In considering the question of the volume of imports, it must be remembered that the true basis of comparison is not with the total Indian mill production which, in 1925-26, amounted to 686·4 million pounds to which the Japanese imports of 33·5 million pounds bore the proportion of 4·9 per cent. and to which the total imports of 51·7 million pounds bore the proportion of 7·5 per cent. It is with the quantity of yarn manufactured in India available for sale, which, in 1925-26, amounted to 271·4 million pounds, to which the Japanese imports bore the proportion of 12·3 per cent. and the total imports the proportion of 19·0 per cent. In considering the question of prices, it must be remembered that there are differences in quality which are reflected in differences in prices for yarn of the same count when imported from different countries or even from different manufacturers in the same country. Again, it is generally recognised that the superior quality of Japanese yarn when compared with Indian yarn of the same count would justify a difference in price of about one anna per pound. The table below which gives the Customs valuations for Japanese yarn of 20s counts and 32s counts and the prices of Indian yarn of 20s counts from 1924 onwards throws some light on the point.

Table XX

Market price of yarn (average)

	20s		32s
	Indian	Japanese	Japanese
	Rs. a. p.	Rs. a. p.	Rs. a. p.
1924			
January	1 0 7	1 1 4	1 8 3
February	1 1 5	1 1 9	1 8 9
March	1 1 0	....	1 8 6
April	1 1 4	1 2 0	1 8 6
May	1 1 9	1 1 10	1 8 2
June	1 1 10	1 2 6	1 7 10
July	1 1 10	1 3 0	1 6 2
August	1 1 10	1 2 3	1 6 2
September	1 1 4	1 1 6	1 5 3
October	1 1 5	1 1 0	1 5 3
November	1 1 2	1 1 2	1 4 10
December	1 0 5	1 1 2	1 4 7
1925			
January	0 15 7	1 0 7	1 4 6
February	0 14 10	1 0 1	1 4 3
March	0 14 11	1 0 3	1 5 1
April	0 14 8	0 15 3	1 3 11
May	0 13 6	0 14 5	1 1 4
June	0 13 3	0 14 3	1 1 2
July	0 13 6	0 14 4	1 0 9
August	0 13 7	0 14 6	1 0 9
September	0 13 6	....	1 0 9
October	0 13 10	....	....
November	0 13 6	....	1 1 0
December	0 12 10	0 13 9	1 0 10
1926			
January	0 12 3	0 13 7	1 0 9
February	0 12 6	0 13 7	1 0 9
March	0 12 3	0 12 9	1 0 11
April	0 11 6	No imports.	1 1 0
May	0 10 9		1 0 4
June	0 10 9		1 0 0
July	0 10 9		1 0 1
August	0 10 9		....
September	0 10 9		1 0 10
October	0 10 9		0 13 6
November	0 9 4		0 13 6
December	0 9 3		0 14 0

This shows that the prices of Japanese and Indian yarn move together but it does not show whether it is the price of Indian yarn which determines that of Japanese yarn or *vice versa*. The figures of imports

we have given above show that it can no longer be the price of Japanese yarn of counts below 30s which determines the price of Indian yarn of similar counts though we received evidence that it has done so in the past, notably that of yarn and piecegoods merchants in Nagpur who informed us that, in 1924 they were receiving large quantities of Japanese yarn of 20s counts which was underselling Indian yarn. Such influence as is now exercised on the price of Indian yarn must, therefore, be exercised by Japanese yarn of counts over 30s and it might be thought that, as the imports of Japanese yarn from 31s to 40s which in 1925-26 amounted to 20 million pounds were almost exactly equal to the Indian mill production of yarn of those counts, which in 1925-26 was 19·7 million pounds, a comparison of the prices of the two would enable a definite conclusion on the point to be arrived at. Unfortunately, the Bombay Millowners' Association does not publish a quotation for 32s yarn, presumably because the bulk of the yarn of these counts produced in Bombay which, in 1925-26, amounted to 5·9 million pounds, is used in the manufacture of cloth. In these circumstances, the only method of dealing with the question appears to us to be to take the costs of manufacturing 32s yarn on the basis of cotton on a particular day in an efficient Indian mill and to compare this with the Japanese selling price of yarn of that count on the same day. The quotation for 32s Japanese yarn on December 31st was 13 annas per pound and 11 annas for 32s Indian. Analysis showed that the Japanese yarn was manufactured from American cotton, the Indian yarn from purely Indian cotton. Figures we have obtained from an efficient Indian mill show that the cost of manufacture alone on the basis of the price of cotton on that date was 12·9 annas per pound. Japanese yarn of 32s counts superior in quality to the comparable Indian product is thus being sold at a price which is practically equal to the cost of manufacture alone of yarn of this count in India without any allowance for profit or depreciation. In view of the fact that there is a definite relative value between the prices of the various counts of yarn sold and that a fall in the price of yarn of counts of 30s or 40s therefore affects the price of all other counts in a varying degree, it must, we think, be held that the competition of Japanese yarn exercises a depressing effect on the price of Indian yarn and that this, in large measure, must be held to account for the fact that the spinning mills with one or two striking exceptions due to special circumstances, are in a worse position than mills which have both spinning and weaving departments.

Difficulties in obtaining exact information as to the range of competition in piecegoods

21. Before we enter on the general question of the extent to which Japanese imports compete with those of Indian manufacture, we would point out that, in the absence of specific duties on the imports of piecegoods into this country, that is of duties based on weight and number of threads per square inch or on counts of yarn, it is impossible to form more than an approximate estimate of the direct competition between Indian manufactures and those from the United Kingdom, Japan and other countries. It was, for example, not until we were well on with our

enquiry that we discovered that, according to the most reliable estimate we were able to obtain, namely that of the Manchester Chamber of Commerce, cloth containing warp or weft of counts between 30s and 40s forms about 40 to 45 per cent. of the total export of cloth from the United Kingdom to this country. Comparison between imported goods and those of Indian manufacture is not rendered any easier by the fact that, whilst Indian manufactures are classified under fifteen heads only in the Monthly Statistics of Cotton Spinning and Weaving in Indian Mills, imports are returned in the Annual Statement of Sea-borne Trade under about a hundred different classes. Grey and bleached goods are lumped together in the Indian returns as are all coloured goods.

The attitude adopted by the Bombay Millowners' Association in this regard calls for some comment. We consider that we were entitled to expect from the body which had applied for protection against unfair competition from Japan full information as to the nature and extent of that competition and that the Millowners' Association would be in a position to place before us a fairly complete range of samples of the Japanese yarn and piecegoods which they regard as in competition with yarn and piecegoods of Indian manufacture together with a record of prices not only of Japanese goods but of the Indian goods with which they are in competition over the period from which, in their view, serious competition dates. It was also, we consider, reasonably to be expected that some information as to the markets in India into which the Japanese goods have penetrated would be placed before us. Little or no information was forthcoming from the Bombay Millowners' Association on any of these heads and we were referred for it to the Customs Department, a source of information to which we had already applied and to which we are greatly indebted. From this source, from our visits to markets and mills, and from the Japan Cotton Spinners' Association we have obtained what we believe is a fairly representative range of samples of the Japanese goods which enter India. We have had 53 samples of Japanese cloth analysed in order to discover how its quality compares with that of the Indian cloth with which it is stated to be in competition and the results of this analysis are referred to in the succeeding paragraphs.

Imports of Japanese piecegoods

22. The imports of Japanese piecegoods into India, like those of yarn, are a comparatively recent feature. They may be said to date in any considerable quantity from 1916-17 when they were just over 100 million yards. They reached their peak in the abnormal conditions of 1918-19 when they were over 238 million yards, a figure they have not again reached. In 1920-21, they were 170 million yards, falling to 90 million yards in 1921-22, since when there has been a steady increase, the figures since that year being 108, 123, 155 and 217 million yards respectively. The figures for the first six months of the current year were 108 million yards. The imports for these years from the United Kingdom and Japan and the percentages they bore to the total imports are shown in

the following table :—

TABLE XXI

—	Grey				White			
	United Kingdom		Japan		United Kingdom		Japan	
	Total	Per cent.	Total	Per cent.	Total	Per cent.	Total	Per cent.
			(Millions of yards)					
1920-21	420·3	72·4	150·4	25·9	408·6	96·9	3·8	0·9
1921-22	526·5	82·8	83·5	13·1	299·3	97·7	1·9	0·6
1922-23	833·3	89·5	90·0	9·6	395·4	98·2	2·4	0·6
1923-24	599·7	85·2	96·9	13·7	402·9	97·0	2·3	0·6
1924-25	727·4	86·0	109·8	13·0	532·9	97·1	4·5	0·8
1925-26	561·3	79·0	142·6	20·1	446·3	96·0	4·7	1·0

	Coloured				Total			
	United Kingdom		Japan		United Kingdom		Japan	
	Total	Per cent.	Total	Per cent.	Total	Per cent.	Total	Per cent.
			(Millions of yards)					
1920-21	448·6	91·8	16·1	3·3	1,291·8	85·6	170·3	11·3
1921-22	121·5	88·0	4·9	3·6	955·1	87·6	90·3	8·3
1922-23	211·9	86·9	15·3	6·3	1,453·4	91·2	107·8	6·8
1923-24	303·7	87·4	23·4	6·7	1,318·8	88·8	122·7	8·2
1924-25	338·4	83·1	40.9	10·0	1,614·0	88·5	155·3	8·5
1925-26	267·4	73·1	69·5	18·9	1,286·7	82·3	216·8	13·9

Character of imports from Japan

23. The relative importance of the various lines of imports from Japan can be roughly gauged from the following table which it is sufficient to give for one year only, 1925-26 :—

TABLE XXII

—	Japan	United Kingdom	Indian mill production
	(Millions of yards)		
Longcloth and shirtings—			
Plain grey	83·5	87·2	521·1
White bleached	1·2	86·5	
Printed	1·2	14·9	Not given separately.
Dyed	5·2	21·7	
Coloured	21·0	5·2	
	112·1	215·5	

—	Japan	United Kingdom	Indian mill production
Drill and jeans—			
Plain grey	16·2	·8	74
White bleached	2·7	3·4	
Dyed	·4	2·8	Not given separately.
Coloured	12·3	·8	
	31·6	7·8	
Sheetings, T. cloth and domestics—			
Plain grey sheetings ..	28·2	·9	74
T. Cloth and Domestics ..	·2	·3	
	28·4	1·2	
Bordered grey dhotis, saris and scarves	14·1	414·2	516
Flannel and flannellettes—			
Printed	2·4	·2	Not given separately.
Dyed	2·3	·2	
Coloured	3·2	·2	
	7·9	·6	
Prints and chintz—			
Printed	3·3	50·1	Do.
Dyed	1·2	·4	
	4·5	50·5	
Unspecified goods—			
Printed	·3	7·2	Do.
Dyed	8·0	18·1	
Coloured	2·2	15·4	
	10·5	40·7	
Twills coloured	2·5	·9	Do.

These figures show that in grey goods including bordered grey goods, the Japanese imports of which in 1925-26 accounted for 142 out of the total Japanese imports of 217 million yards, the main lines are longcloth and shirtings, drills and jeans, sheetings including T. cloth and domestics.

and dhotis. The last, it should be mentioned, is a new feature, the imports under this head only figuring prominently last year. In coloured goods which accounted for another 44 million yards, the principal imports were again longcloth and shirtings and drills and jeans. We now proceed to an examination of the imports under each of these heads.

Longcloth and shirtings.—The most striking increase in the imports from Japan in recent years has been under this head as the following figures show :—

TABLE XXIII

——	1921-22	1922-23	1923-24	1924-25	1925-26
	(Millions of yards)				
Plain grey ..	41·2	38·8	26·2	59·7	83·5
Coloured ..	·5	2·9	5·4	11·8	21·0

The analysis of the 31 samples we have obtained does not bear out the contention of the Japan Cotton Spinners' Association that the bulk of the imports of this class of goods is made from yarn of 40s counts and above. Of the 31 samples, 7 were of counts under 30s, 10 of counts 30s to 40s, 3 of counts between 36s and 46s and 11 of counts over 40s. Any conclusion based on analysis as to the quantities imported obviously depends upon the extent to which a particular line of goods is imported but it seems safe to conclude that about three-fourths are made from counts of 30s and over. The imports of grey goods under this head during 1925-26 equalled about 16 per cent. of the Indian mill production.

Drills and jeans.—The imports of these from Japan in the last five years are shown in the following table :—

TABLE XXIV

——	1921-22	1922-23	1923-24	1924-25	1925-26
	(Millions of yards)				
Plain grey ..	6·6	10·0	16·1	14·5	16·2
White bleached	1·2	1·7	1·1	2·8	2·7
Printed ..	..	..	..	·1	·1
Dyed ..	..	·3	·6	·8	·5
Coloured ..	·6	1·6	2·5	5·2	12·2
Total ..	8·4	13·6	20·3	23·4	31·7

The imports of these are thus not large and while there has been, in recent years, a marked advance in the imports of coloured goods, there has been no increase in those of grey goods in the last three years. The analysis

of nine samples shows, that in six cases, the counts are 16s to 20s and in three cases 14s to 15s and it is thus clear that all the imports of this class are of counts 20s and under. The imports of grey goods under this head in 1925-26 equalled about 22 per cent. of the Indian mill production.

Sheetings, T. cloth and domestics.—The imports of these from Japan in the last five years are shown in the following table :—

TABLE XXV

——	1921-22	1922-23	1923-24	1924-25	1925-26
Sheetings—			(Millions of yards)		
Plain grey ..	35·0	40·8	54·0	34·3	28·2
White bleached.	·003	·02	·08	·008	·02
Printed ..	..	..	..	·1	·1
T. cloth and domestics—					
Plain grey ..	·004	·2	·03	·2	·2
Total ..	35·007	41·02	54·11	34·608	28·52

The most striking feature of this table is the decline of the imports from Japan since 1923-24, the imports of sheetings in 1925-26 being only slightly over half those in 1923-24. The analysis of seven samples of these shows that the counts are of 16s and under, one sample only being of 20s. This class may therefore be said to consist almost entirely of counts of 16s and under. The imports of grey goods from Japan in 1925-26 equalled 38 per cent. of the Indian mill production. The Japan Cotton Spinners' Association state that the bulk of the imports under this head is re-exported. In the absence of figures showing the re-exports from India of each class of grey goods, it is impossible to ascertain how far this contention holds good but that it is not correct, if by re-exports is meant re-exports to countries outside India, is evident from the fact that the total re-exports by sea of all grey goods from India in 1925-26 were only 15·8 million yards against 33·0 million yards in 1924-25 and 41·1 million yards in 1923-24.

Bordered dhotis.—Imports of these from Japan as already noted appeared for the first time in any appreciable quantity in 1925-26 when the imports were 14·1 million yards equalling 2·8 per cent. of the Indian mill production. In 1924-25, they were only 700,000 yards and in previous years may be considered negligible. The analysis of six samples shows that the counts were 32s to 46s.

Twills.—The imports under this head are almost entirely of coloured twills. The imports of 2·5 million yards of coloured twills in 1925-26

were almost exactly doublé of those in the previous year, imports in earlier years being negligible.

Extent of competition in piece-goods

24. Efforts have been made from time to time to frame an estimate of the extent to which there is direct competition between piece-goods of Indian manufacture and those imported from the United Kingdom and Japan. In the absence of information as to the counts of yarn from which imported piece-goods are manufactured as well as of information as to the quantity of piece-goods produced by the Indian mills from the various counts, such estimates must be of a very tentative character. It is, however, comparatively easy to frame an estimate for goods manufactured from counts below 30s as the imports under this head from the United Kingdom are very small, consisting as they probably do of not more than 5 per cent. of the total imports from that country. On the assumption that one-quarter of the Japanese imports of longcloth and shirtings, that is 28 million yards and the whole of the imports of drills and jeans amounting to nearly 32 million yards and of sheetings and domestics amounting to 28 million yards are of counts below 30s, we get a total of 88 million yards. It can, we think, be concluded that about 90 million yards of Japanese imports, that is approximately 40 per cent., compete directly with the staple products of the Indian mills. The case is very different when it comes to a consideration of the competition of cloth of counts between 30s and 40s. The production of Indian piece goods of counts between 30s and 40s is very small as is evident from the fact that the total production of yarn of these counts in Indian mills in 1925-26 was only 19·7 million pounds. If all these had been converted into piece-goods—a very extreme assumption—it would have meant a total production of about 93 million yards.* To this have to be added the piece-goods manufactured from imported yarn of these counts. The imports of yarn between 30s and 40s in 1925-26 amounted to 26·2 million pounds. If it be assumed that half of this quantity was converted into cloth by those mills in Ahmedabad and elsewhere which use imported yarn only as well as by mills in Bombay and other centres which use imported yarn for certain lines, this would add another 62 million yards, a total of 155 million yards. The very rough character of this estimate will be obvious, especially as the yarn between counts 31s and 40s spun in Indian mills is principally weft yarn which is usually utilised in the manufacture of cloth, the warp yarn of which is of counts 30s and under. Figures obtained from the Bombay mills show that, in 1925-26, the production of piece-goods in Bombay containing yarn above 30s counts either in warp or weft or both was 65 million yards and for the first nine months of 1926 was 79 million yards. All that can be said is that the production of piece-goods in India containing yarn of counts between 30s and 40s probably somewhat exceeds the imports of Japanese goods between these counts. What is quite clear from the figures is the extent to which Japanese competition in this class of grey goods has affected the imports

* The basis of conversion adopted is 1 pound of yarn = 4·78 yards of cloth.

from the United Kingdom. This will be evident from the followin table which shows the total imports of grey and bordered grey good from both countries during the last five years :—

TABLE XXVI

——	1921-22	1922-23	1923-24	1924-25	1925-26
		(Millions of yards)			
Plain grey goods—					
United Kingdom.	144·3	327·0	167·1	237·3	146·4
Japan ..	83·3	89·9	96·6	108·9	128·4
Bordered grey—					
United Kingdom.	382·1	506·2	432·5	490·1	414·9
Japan ..	·2	·1	·3	·8	14·1

Imports of Japanese piece-goods into Bombay

25. It is a significant fact in the present connexion that although the imports of Japanese piece-goods into India in the last three years have markedly increased, those of grey and dyed goods into Bombay have not increased in the same proportion. The following table is very instructive :—

TABLE XXVII

——	1923-24	1924-25	1925-26	April-October 1926	Total imports into India from Japan, 1925-26
		(Millions of yards)			
Bombay—					
Grey ..	81·6	66·9	82·8	31·2	128·4
Bordered grey .	..	·4	·5	·9	14·1
White ..	·4	1·0	·7	·1	4·7
Printed ..	·04	·5	1·3	1·6	8·1
Dyed ..	5·6	3·6	3·6	2·2	17·6
Coloured ..	1·9	5·0	7·9	6·4	43·8
Total ..	89·5	77·4	96·8	42·4	216·7
All India ..	122·7	155·3	216·7	125·2	..

This table brings out very clearly that, whilst in 1923-24, Japanese competition with the Indian mill industry was concentrated in Bombay this is no longer the case as more than half the Japanese piece-goods are

now taken by other ports. The imports into other ports for the last three years are shown in the following table :—

TABLE XXVIII

	Calcutta				Madras			
	1923-24	1924-25	1925-26	1926-27, April to October	1923-24	1924-25	1925-26	1926-27, April to October
	(Millions of yards)							
Grey ..	7·4	20·6	19·2	14·7	..	·1	..	....
Bordered grey ..	·3	·4	13·6	16·3	..	..	..	....
White ..	1·7	2·7	2·5	1·1	..	..	..	....
Printed ..	·5	1·1	·7	1·7	..	..	..	....
Dyed ..	·3	·6	·4	·4	..	..	·1	....
Coloured ..	4·3	8·2	20·6	12·1	..	..	..	....
Total ..	14·5	33·6	57·0	46·3	..	·1	·1	....
All India ..	122·7	155·3	216·7	125·2	122·7	155·3	216·7	125·2

	Karachi				Rangoon				All India
	1923-24	1924-25	1925-26	1926-27, April to October	1923-24	1924-25	1925-26	1926-27, April to October	1925-26, Total imports into India from Japan
	(Millions of yards).								
Grey ..	2·	12·7	14·0	8·7	5·6	8·7	12·3	7·7	128·4
Bordered grey ..	..	..	..	..	..	..	..	..	14·1
White ..	..	·1	·1	..	·2	·7	1·4	·5	4·7
Printed ..	..	..	·4	·2	·3	3·2	5·8	1·6	8·1
Dyed ..	·	·9	1·6	1·3	8·4	7·3	11·9	9·5	17·6
Coloured ..	..	·4	1·2	·7	6·7	10·2	14·1	6·3	43·8
Total ..	2·5	14·1	17·3	10·9	16·2	30·1	45·5	25·6	216·7
All India ..	122·7	155·3	216·7	125·2	122·7	155·3	216·7	125·2	..

It will be seen that the imports into Calcutta from Japan for the first seven months of 1926-27 exceeded those into Bombay. The inference to be drawn from the above examination is that the Japanese are not finding the trade in piece-goods of the coarser counts as profitable as formerly and are turning their attention more and more to the finer counts and to coloured goods for which there is a better market in Calcutta and Rangoon respectively.

Comparative prices of piece-goods

26. It is the contention of the Bombay Millowners' Association that it is the price of Japanese imports rather than their volume to which attention should be directed as it is these which affect the prices of all Indian goods and prevent their being sold at a profit. We cannot too strongly emphasise the great difficulties which are met at every step in obtaining a satisfactory basis for comparison in the matter of prices. The range of the piece-goods which enter India is probably greater than that imported by any other country in the world, not excepting China. We have already mentioned that the imports of cotton textiles in the Annual Statement of Sea-borne Trade are classified under a hundred different heads. The difficulties which arise from variety are accentuated by the smallness of the unit of sale. The prices both of yarn and cloth are usually quoted by the pound, those of piece-goods also by the piece or even by the yard. We found in our inspection of markets the same variety quoted at two different rates in the same market on the same day. The fact that cloth of two different manufacturers is of exactly the same quality is no guarantee that it will be sold at the same price, for the price is affected by the reputation of the firm which makes the cloth or the merchant who sells it. A further factor which has accentuated our difficulties in working out any trustworthy comparison of prices arises from the continued fall in prices throughout the period of our enquiry. The Bombay Millowners' Association have pointed out various reasons why any data collected under this head cannot be regarded as satisfactory, but we consider that it is only by a comparison between the prices of Japanese goods and those of Indian manufacture that a conclusion can be drawn as to the correctness of the allegations of "under-cutting." The procedure we have followed in this respect has been to take certain of the best known Japanese qualities in regard to the prices of which we have been able to obtain reliable information, to have them analysed, to ascertain the valuation adopted by the Customs authorities on a given date and to ascertain the exact cost of manufacture of similar qualities by an efficient Indian mill on the basis of the price of cotton on that date. We give below the results of the examination of what we consider a representative range of the samples we have dealt with in this way :—

TABLE XXIX

Cypher No.	Dimensions	Class of goods	Counts		Reed	Picks	Cost per piece	Expected selling price	Japanese sale price	Date of comparison of prices
			Warp	Weft						
	In. × yds. × lbs.						Rs. a. p.	Rs. a. p.	Rs. a. p.	
Geese	29½ × 40 × 13	Drill	14s	15s	3/40	40	8 6 5	9 12 4	10 6 0 9 13 7*	End of December.
Elephant	29½ × 40 × 14½	Do. ..	15s	15s	3/44	50	9 10 11	11 6 2	12 8 0	End of December.
2 Donkeys No. 777 ..	36 × 30 × 10	Sheetings ..	14s	15s	42	44	6 7 9	7 9 6	7 6 0 6 8 4*	End of December.
9 Dragon	36 × 30 × 10 ..	Do. ..	14s	15s	40	44	6 6 7	7 8 4	8 4 0 7 12 4*	End of December.
C Dragon	36 × 30 × 9½	Do. ..	15s	15s	40	44	6 4 4	7 6 1	7 12 0 7 7 11*	End of December.
7070	36 × 40 × 12 ..	Shirtings ..	24s	22s	60	64	10 10 0	13 0 0	13 0 0	23rd November, 1926.
Milkmaid No. 4499 ..	44 × 38½ × 10½ ..	Do. ..	30s	36s	72	68	11 13 6	14 10 10	11 4 0	7th January, 1927.
5151	44 × 38 × 7½	Do. ..	36s	40s	56	56	10 0 2	12 3 10	10 0 0	7th October, 1926
99000	44 × 38½ × 8	Do. ..	40s	40s	64	64	11 6 11	13 15 11	10 11 0	7th October, 1926
403	44 × 38 × 8	Do. ..	40s	40s	64	64	11 2 1	13 9 5	10 8 0	7th October, 1926
Bow and Arrow ..	44 × 46 × 9⅝	Do. ..	44s	40s	68	70	14 10 5	17 0 8	13 10 0	7th October, 1926
731	44 × 38 × 7½	Do. ..	44s	40s	64	64	10 14 2	13 6 1	11 0 0	7th October, 1926
Snipe	44 × 38 × 7½	Do. ..	40s	44s	64	68	11 11 6	14 5 2	10 4 0	7th January, 1927.
89000	44 × 38 × 8	Do. ..	36s	46s	60	64	10 15 8	13 5 1	11 4 0	7th October, 1926
290	39 × 9 × 1⅝	Dhoties ..	36s grey 2/40s coloured	40s	60	52	2 6 10	2 14 8	2 14 0	7th October, 1926
5411	44 × 10 × 2¼	Do. ..	36s, 2/24s, and 2/40s grey 2/40s coloured.	40s	64	64	3 6 11	4 2 0	3 8 0	7th October, 1926

*N.B.—These are prices actually ascertained from the piece-goods market. The other Japanese prices are those given by the Customs Department.

The " expected selling price " is the estimated price which would give an Indian mill a return of eight per cent. on capital at present replacement prices and allow it to make the full allowance of 5 per cent. for depreciation of machinery and 2½ per cent. on buildings. One point which deserves mention is that, in regard to the cloth manufactured from the lower counts, the figures are strictly comparable as these are lines regularly manufactured by the Indian mills. In regard to cloth made from yarn of the higher counts, that is of counts above 30s, this is not so and the cost per piece is merely the cost at which it is estimated that an Indian mill would be able to make cloth of similar quality.

The conclusion to be drawn from this table is that in cloth made from yarn of the lower counts, that is in drills and sheetings, the Indian mills are able to hold their own and we cannot therefore but regard it as doubtful whether it is the Japanese imports of these lines which control prices in India, especially in view of their comparatively small volume and stationary or declining character. It must, however, be remembered that there are certain lines of Japanese sheetings such as C Dragon and 9 Dragon which have an established reputation. This at present enables them to command a higher price than could be obtained by Indian mill made cloth of similar quality though given regular quality on the part of Indian mill production the handicap in this respect should be overcome. The case is different with longcloth and shirtings which bulk so largely in the Japanese imports and in the production of the Bombay mills. There it is evident that the cost of manufacture alone of cloth of 30s and above in Indian mills apart from profit and depreciation is practically equal to or higher than the Japanese sale price. That this must exercise a depressing effect on the prices of the Indian mill production of longcloth and shirtings will be obvious. Stated broadly, the position is that the Japanese manufacturers are supplying longcloth and shirtings which are only slightly inferior to Lancashire goods at prices which are distinctly lower than those of the latter and differ very little from the cost of manufacture alone of Indian goods to which their quality is distinctly superior.

Imports from Japan of cotton manufactures other than yarn and piecegoods

27. The headings under which imports of cotton manufactures from Japan other than yarn and piecegoods are shown in the Annual Statement of Sea-borne Trade are blankets, canvas, handkerchiefs and shawls in the piece, hosiery, lace and patent net, rope, sewing thread, towels in the piece and " other sorts of manufactures." The imports of canvas, handkerchiefs and shawls, lace and patent net, rope and towels in the piece from Japan are negligible and it is therefore unnecessary to examine the figures for them separately. Under each of these heads, the bulk of the imports which, in 1925-26, amounted to 728,000 yards of canvas, 6,200,000 handkerchiefs and shawls in the piece, 1,117,000 yards of lace and patent net, 975,000 pounds of rope and 2,154,000 pounds of sewing thread came from the United Kingdom. As regards the imports of

blankets, Holland continues to be, as it was before the war, the largest source of supply. Imports from Japan have fluctuated greatly. The maximum figure in the last ten years was 948,000 pounds in 1919-20, the minimum 13,000 pounds in 1921-22. There has been a rapid expansion in the last three years, as the table below will show, but the imports from Japan are still less than half those from Holland :—

TABLE XXX

—	1921-22	1922-23	1923-24	1924-25	1925-26
		(000s of pounds)			
United Kingdom	·4	25	98	77	103
Germany	155	47	892	2,129	666
Holland	1,841	1,064	1,801	1,494	1,600
Belgium	653	1	270	1,129	510
Japan	13	25	158	279	715
Total, all countries	2,683	1,196	3,250	5,139	3,720

The total imports from all countries under this head for the first eight months of 1926-27 have been 5·34 million pounds. No separate figures are available for the Indian mill production of blankets but the total figures for grey and coloured goods other than piecegoods under which they are included in the returns were 3·72 million pounds in 1925-26 against 2·95 million pounds in 1924-25 and 2·58 million pounds in 1923-24.

It is under the head "hosiery" that the predominance of Japanese imports is most striking. This, however, is no new feature as the following table which gives the value of imports of hosiery from 1910-11 to 1925-26 will show :—

TABLE XXXI

—	1910-11	1911-12	1912-13	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19
			(Lakhs of rupees)						
United Kingdom ..	4·65	6·30	6·00	7·05	5·70	5·85	11·25	7·80	9·15
Japan	69·15	65·70	62·25	83·40	66·60	56·40	127·50	91·65	73·65
Total, all countries ..	90·30	92·55	91·80	119·70	79·05	64·05	141·30	102·45	87·30

—	1919-20	1920-21	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27 (first eight months)
			(Lakhs of rupees)					
United Kingdom ..	6·80	17·80	4·42	3·25	3·61	3·63	3·41	1·92
Japan ..	122·40	139·30	45·13	64·02	74·90	85·55	111·38	80·16
Total, all countries ..	145·00	190·80	63·49	80·22	93·95	111·92	140·45	99·10

No figures of quantities of imports of hosiery into India were given in the Annual Statement of Sea-borne Trade prior to 1925-26 and, owing to the system of classification adopted, it is impossible to compare the volume of imports with the output of the Indian mills which, in 1925-26, amounted to 872,000 pounds against 673,000 pounds in the previous year and 548,000 pounds in 1923-24. The bulk of the hosiery produced in India is not produced in cotton mills but in a number of small scattered factories which purchase the yarn they use. In these circumstances, we shall deal separately at a later stage with Japanese competition in hosiery.

The import from Japan under "other sorts of manufacture" have also shown a marked increase in recent years, largely as will be seen from the table below at the expense of the United Kingdom. We are informed that the principal articles imported under this heading are wicks, prayer mats, carpets and crochet :—

TABLE XXXII

——	1921-22	1922-23	1923-24	1924-25	1925-26
		(000s of	pounds)		
United Kingdom	616	433	517	588	465
Japan	321	451	514	691	774
Total, all countries	1,131	1,058	1,220	1,599	1,470

Value of imports of cotton goods from Japan

28. The following table shows the increase in the value of the imports of all cotton goods including yarn from Japan in the last five years. The figures are in lakhs of rupees :—

TABLE XXXIII

——	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27 (first 8 months)
United Kingdom ..	4740	5928	5528	6625	4898	3418
Japan	648	819	835	1136	1248	715
Total, all countries ..	6038	7186	6999	8657	6931	4507

Nature of competition from Japan

29. The Bombay Millowners' Association attribute the ability of Japan to sell cloth in India at prices with which Indian manufacturers are unable to compete to what they term the unfair advantages which Japan possesses in the matter of a depreciated exchange, inferior labour conditions and bounties, subsidies and other State help to the cotton industry. We proceed to examine these in detail but, before doing so, it may be well to mention certain advantages which Japan possesses over India which can in no

sense be regarded as unfair. The first of these is its climatic conditions which are markedly superior to those of India, a superiority which must obviously have an effect on the efficiency of Japanese labour. The second is that social conditions in Japan permit the employment of the cheaper female labour to a much larger extent than they do in India. In Japan, the proportion of women to men in the spinning mills in 1925 was 3·4 to 1, and in the weaving mills 5·3 to 1, the total number employed in spinning being 40,037 men against 136,235 women and in weaving 8,882 men against 47,615 women. The proportion of women to men for the whole industry is thus 3·8 to 1. In India the position is almost exactly reversed, the proportion of men to women in 1924, the latest year for which figures are available, being 4·3 to 1. The actual figures were 261,564 males and 63,042 females.* In proximity to sources of supply of the shorter stapled cotton, India is, of course, at an advantage, though the proximity of Japan to the short stapled China crop must not be lost sight of, but as regards proximity to the much larger American crop the two countries would seem to be in much the same position, the freight from Galveston to Osaka *via* the Panama Canal ranging from 77·5 to 82·5 cents per 100 pounds, according to figures furnished by His Majesty's Consul at Osaka, and that from Galveston to Bombay being 80 cents per 100 pounds, according to the figures furnished by the Bombay Millowners' Association. Imports of American cotton into India are, however, in normal conditions, of small importance and the fact that Japan operates on a very large scale in both markets and has, in addition, the Chinese crop in reserve, undoubtedly enables the Japanese buyers to purchase their raw material on the most advantageous terms—an advantage which is increased by their highly organised system of purchase. It is by the mixing of American and Indian cotton that the Japanese manufacturer has been able to give his grey cloth the appearance which renders it much more attractive than the bulk of the Indian cloth with which it is in competition. Many witnesses before us laid considerable stress on the advantage the Indian manufacturer has over his Japanese competitor in that the latter has to pay freight both on his raw material and his finished product. The cost of freight is, however, a small item in the cost of the finished product. The freight for cotton from India to Japan is 4·56 yen per bale subject to a discount of 1·40 yen per bale to Japanese spinners. This works out at 2 pies per pound. The freight on piece-goods from Japan to India is 14·5 yen per ton less a discount of 10 per cent. which works out at 2·1 pies per pound. The total freight on both raw cotton and piece-goods thus amounts to 4·1 pies per pound which, it may be noted, is the railway freight on piece-goods alone per pound from Bombay to Sholapur.

The Japanese exchange

30. The first of the unfair advantages which the Bombay Millowners' Association contend is possessed by the Japanese is that of a depreciated exchange. They hold that the continuous fall in the Japanese exchange since the early months of 1924, which became very marked in the latter half of the year, is one of the two main reasons why Japanese exporters

have been able to place their goods on the Indian market at prices with which Indian manufacturers are unable to compete. They further hold that an additional advantage to Japan arose from the fact that the Japanese were able to purchase Indian cotton when the yen was high and to sell yarn and piece-goods subsequently after it had undergone considerable depreciation.

The facts are that the yen fell progressively from 152 rupees per 100 yen in December, 1923, to 112 in August, 1925, and reached its lowest, *viz.*, 105 and 107 in December, 1924, and January, 1925, respectively. Throughout the whole of 1925 it ranged between 107 and 118. It commenced to rise again in December, 1925, and at the time of writing is 135, which means that it is practically at gold parity. A comparison of the exchange rates with the imports of Japanese yarn and cloth into India as well as of exports of cotton from India to Japan is given in the table below :—

TABLE XXXIV

Period	Exchange rate	Yarn, millions of lbs.	Cloth, millions of yds.	Raw cotton in thousands of bales
1923				
January-June ..	154—158	14·24	64·93	1,254
July-December ..	155—152	10·70	53·21	364
1924				
January-June ..	147—135	10·16	62·28	1,081
July-December ..	133—105	20·55	83·26	420
1925				
January-June ..	107—111	18·73	93·21	1,495
July-December ..	112—118	12·99	107·23	588
1926				
January-June ..	120—130	17·73	116·42	1,428
July-November (five months)..	130—137	8·09	91·32	319

It is not easy to base any definite conclusion on these figures as to the extent to which the movements of the Japanese exchange have affected the exports of cloth and yarn to India, but they appear to show that the depreciation of the Japanese exchange stimulated them to an appreciable extent during the early period of the depreciation. The position in the later part of the period under consideration is not so clear as this period shows a rise in Japanese exchange, a fall in the imports of yarn and a rise in the imports of cloth until June, 1925, since when imports both of yarn and piece-goods have fallen, the former considerably. It need hardly be pointed out that it is impossible to disentangle the influence of exchange from other factors but we think there can be little doubt that the depreciation of the Japanese exchange, whilst it lasted, stimulated exports from Japan to India. The changes in Japanese prices and wages are of interest in this connexion.

TABLE XXXV

——	Exchange	Imports of cloth from Japan in millions of yards	Wages in Osaka, 1913—100	Wholesale prices in Japan, 1913—100
1923				
January ..	154	16·3	312	184
February ..	152	7·27	313	192
March ..	153	9·33	315	196
April ..	156	12·22	313	196
May ..	158	11·88	315	199
June ..	158	8·20	314	198
July ..	155	6·01	313	192
August ..	161	6·76	314	190
September ..	159	6·70	319	210
October ..	157	11·04	321	212
November ..	156	13·77	320	210
December ..	152	8·93	321	211
			(Av. 316)	
1924				
January ..	147	19·45	318	211
February ..	149	7·41	318	208
March ..	144	9·25	318	206
April ..	135	5·73	320	207
May ..	131	9·84	321	205
June ..	135	10·53	325	199
July ..	133	14·80	323	195
August ..	122	10·59	323	200
September ..	125	14·17	326	207
October ..	114	14·70	326	213
November ..	112	13·85	326	214
December ..	105	15·15	327	214
			(Av. 323)	
1925				
January ..	107	18·72	325	214
February ..	110	11·34	325	210
March ..	115	15·67	331	204
April ..	117	11·84	329	202
May ..	115	18·28	327	199
June ..	111	17·36	330	200
July ..	112	19·26	328	198
August ..	112	15·75	331	200
September ..	111	16·16	329	201
October ..	112	18·50	331	200
November ..	111	18·04	332	197
December ..	118	19·52	328	194
			(Av. 329)	

It will be seen that there was a tendency for wages and wholesale prices to rise as the exchange moved down but that this tendency, as was to be expected, was comparatively slow in its operation. It must be remembered that wages in Osaka are not necessarily representative either of the wages in the cotton industry in Osaka or in industry generally.

The average daily wages in the spinning department of the cotton industry throughout this period were as follows :—

TABLE XXXVI

	Male	Female	Per operative
1923	Yen	Yen	Yen
January-June	1·485	1·179	1·251
July-December	1·481	1·181	1·254
1924			
January-June	1·518	1·210	1·283
July-December	1·530	1·202	1·278
1925			
January-June	1·541	1·226	1·297
July-December	1·554	1·221	1·297

Wages, therefore, did not rise as might have been expected. It is, however, tenable that such rise as did occur would have continued at an increasing rate and have ultimately overtaken the fall in exchange, thus eliminating any gain to producers as the result of the depreciated exchange. So far, however, as the future is concerned, the point is of academic interest only as the yen now practically stands at gold parity. The Bombay Millowners' Association claim that even with the yen at 135 as it is to-day, Japan retains an advantage as its par value should be calculated on the basis of the rupee at 1*s.* 4*d.*, that is, at 153. Any advantage, however, that Japan may enjoy owing to the higher gold value of the rupee is an advantage which is shared by all countries from which India imports. So far, therefore, as exchange is concerned, Japan now enjoys no special advantage and the wider question of the alleged disadvantages to the cotton industry of a high rupee can best be considered at a subsequent stage.

Labour conditions in Japan

31. The second contention of the Bombay Millowners' Association in regard to the unfair advantages possessed by Japan is that the failure of that country, although it was represented at the Washington Conference of 1919, to ratify three of the draft Conventions adopted by that Conference enables it to place cotton manufactures on the Indian market at prices with which the Indian manufacturer cannot compete. These three Conventions are the Convention which limits the hours of labour in industrial undertakings to eight in the day and forty-eight in the week, hours which were extended in the case of Japan to 57 per week and in that of British India to 60 per week, the Convention which prohibits the employment of women during night hours and the Convention which prohibits the employment of young persons by night. We reproduce these Conventions as Appendix IX. The present position in respect of the six draft Conventions adopted by the Washington Conference is that Japan has ratified only one of them, that which fixes the minimum age

for the admission of children to industrial employment. The Industrial Workers' Minimum Age Law which came into force from July 1st, 1926, prohibits the employment of persons under fourteen years of age but this prohibition does not extend to persons over twelve years of age who have completed the ordinary primary school course. A supplementary rule provides that the prohibition shall not apply in cases where persons between twelve and fourteen were continuously employed on July 1st, 1926. The provisions of the Indian Factory Act lay down that no child under the age of twelve shall be employed in any factory. As regards the age of admission to factories, there is thus little difference between the conditions in India and Japan.

In Japan, the working hours are regulated by the Japanese Factory Law which was originally passed in 1911, enforced in 1916 and amended in 1926. The amendments took effect from July 1st, 1926. Article III of the revised Factory Law reduced the maximum working hours for females and lads under sixteen from twelve to eleven with a minimum of one hour's rest but the same Article gives the competent Minister of State power to prolong these hours by not more than two hours during a period of fifteen years from July 1st, 1926, according to the nature of the work. On the basis of this provision, the Minister of the Interior has issued an ordinance allowing employers to prolong the hours of labour of juveniles under sixteen and of females up to twelve hours a day in the cotton spinning industry but not in the cotton weaving industry. This prolongation, however, is only permitted in cases in which a single shift per day is worked. A supplementary rule appended to the Law provides that until June 30th, 1929, the words " sixteen years " shall be read as " fifteen years ".

As regards restriction of night work, Article IV of the Factory Law prohibits the employment of lads under sixteen years and female labour between the hours of 10 p.m. and 5 a.m. With the sanction of the Government authorities, they may however be employed up to 11 p.m. A supplementary rule provides for the postponement of the operation of the prohibition of night work until June 30th, 1929, for women and juveniles.

The position is thus that, under the Factory Law which is in force in Japan, juveniles under sixteen may be employed up to twelve hours a day in the cotton spinning industry when a single shift is worked and up to eleven hours a day when two shifts are worked. They may be employed up to eleven hours a day in the cotton weaving industry. Both juveniles under sixteen years and females may be employed on night shifts until June 30th, 1929. In actual practice, the position is somewhat different. In spinning mills, double shifts are almost universal. The average hours in 1912 were 22·3 but since then there has been a decrease and the average in 1923 was 20·47 hours, in 1924, 18·54 hours and in 1925, 19·80 hours. The decrease in 1924 is due to a "gentleman's agreement" made the previous year by the principal members of the Japan Cotton Spinners' Association not to work more than 20 hours per day as a means of restricting the output of yarn. From July 1st, 1926, when the revised Factory Law

came into force, the maximum number of hours for which it is permissible to work in double shift mills is 10 hours per shift, so that it will be seen that, so far as the majority of the spinning mills are concerned, the enforcement of the revised regulations has effected no change in the working hours. As regards weaving, in most of the mills including the majority of those operated by the larger companies, only one shift is worked though the smaller and less important concerns almost invariably work full time. In fact, in one or two cases, during the latter half of 1925, the average daily hours were as high as 22. If the average of all the mills operated by the members of the Japan Cotton Spinners' Association is taken, the working hours in 1912 were 13·22, in 1923, 12·85, in 1924, 12·84 and in 1925, 14·45. The mills of companies which are not members of the Japan Cotton Spinners' Association almost invariably work much longer hours and it has recently been stated in the Japanese press that the enforcement of the Factory Law is likely to restrict the output of piecegoods by these concerns as they have lately been in the habit of working each shift for 11 hours or more. The position thus may be said to be that all those concerns whose output of yarn competes with that of the Indian mills are working two shifts of 10 hours each and that very nearly half of the weaving mills are also working similar hours.

A few other facts concerning Japanese labour may conveniently be mentioned here. The hours of commencing and ceasing work vary according to the mill but, as a general rule, both day and night shifts begin at 6 and cease work at 5, with three intervals for rest, two of fifteen minutes and one of half an hour. As regards holidays, the Factory Law enacts that juveniles under sixteen and females are to be given at least two days' holiday per month. Four holidays per month are prescribed for juveniles under fifteen and females when employed in two or more shifts and the working hours have to be changed at intervals not exceeding ten days. In practice, however, the working days are less than those the law permits. The average number of working days in the Japanese cotton spinning and weaving mills has not varied greatly during the last fifteen years. In 1912 it was 27·8, in 1923, 26·8, in 1924, 26·3 and in 1925, 26·7. In most cases, no work is done on Sundays, as the practice of observing this day as a general holiday has increased very noticeably during the last few years. It is, however, by no means a universal rule, as the convenience of the mill, *e.g.*, in changing shifts, is considered, the two shifts usually taking a week each on day and night work with a day's rest between. At New Year two or three days holidays are given and the other two important Japanese holidays, *e.g.*, February 11th, the anniversary of the granting of the Constitution, and October 21st, the Emperor's birthday, are always observed.

It will be seen that, even when the prohibition of night work for females and lads under sixteen becomes operative, the conditions of labour in Japan in respect of hours will remain inferior to those in India as there will still be no restriction in the hours of labour for adult males and, though the amended Factory Law reduces the maximum hours of labour

for females and lads under sixteen from twelve to eleven, it will still be permissible for the competent Minister for State to extend these hours by not more than two for a period of twelve years from July 1st, 1929.

Economies of the double-shift system

32. The Bombay Millowners' Association have pointed out the great difficulty of ascertaining the exact advantage which Japan derives from the employment of women and children at night which makes double-shift working possible. They have calculated it at 5 per cent., their basis being the manufacturing costs shown in the table below which it may be noted are the all-in costs of manufacture of cloth in an efficient mill in Bombay, that is, the average cost per pound of all cloth manufactured in this particular mill. The costs are those for 1924 but there has been little change since then except for the abolition of the excise duty and a slight reduction in the price of coal and stores :—

	Pies per lb.
Coal	10·09
Stores	14·46
Labour	39·69
Office and supervision	3·41
Fire Insurance	1·67
Municipal and other taxes	1·57
Interest	5·66
Commission on cloth	4·60
Excise duty	9·35
Dyeing charges	4·40
Agents' commission	0·83
Income-tax and super-tax	1·94
Total, including agents' commission, income-tax and super-tax	97·67

The Bombay Millowners' Association consider that, of the costs of the production, shown in this table, supervision charges of 3·41 pies, fire insurance charges of 1·67 pies, municipal taxes of 1·57 pies and half the interest charges amounting to 2·83 pies could be saved by double-shift working, a total of 9·48 pies per pound on a total cost of 97·67 pies per pound. This is approximately 10 per cent., which represents 5 per cent. of the whole cost of cloth with cotton at the price ruling when the Association's representation was submitted, that is, in July, 1926. The calculation is open to several very obvious objections. The excise duty should be omitted as should income-tax and super-tax which are only payable on profits. Agency commission, in the case of those mills which pay commission on profits, is only a manufacturing cost to the extent to which a minimum commission is provided for in the agency agreement. On the other hand, no allowance for depreciation has been included, and it is incorrect to show the whole of the fire insurance charges as a saving as we understand that when a mill works double

shifts, these charges are higher than they are for one shift only. The better plan, in our view, is to take the actual manufacturing charges and overhead costs in the form in which we obtained them from the mills and to base the calculation on these. It should, we think, be based on the actual costs per spindle per day and per loom per day, in a Bombay mill.

In the table below we, therefore, show, on the basis of the average figures for cost of production supplied by Bombay mills, what the actual saving in overhead charges per loom per day would amount to, if the mill were working double shifts both in the spinning and weaving departments. It will be seen that we have worked out the figures for two mills, one turning out cloth of counts of yarn averaging 20s and the other turning out cloth of counts of yarn averaging 32s. Our basis of production is 13 pounds per loom per day in the one case and 8½ lbs. per loom per day in the other :—

TABLE XXXVII

Overhead charges (including those due to spinning charges) per loom per day for single and double shift working

	Mill turning out cloth of average 20s counts (On the basis of 30 spindles to one loom)		Mill turning out cloth of average 32s counts (On the basis of 35 spindles to one loom)	
	Single shift	Double shift	Single shift	Double shift
	Pies	Pies	Pies	Pies
Taxes	11·16	11·16	11·16	11·16
Insurance	16·06	24·08	15·40	23·10
Repairs to buildings ..	7·82	9·78	7·82	9·78
Salaries of supervising staff	36·91	49·20	36·91	49·20
Office expenses	16·12	16·12	16·12	16·12
Miscellaneous charges ..	17·59	17·59	17·59	17·59
Interest on working capital ..	70·61	78·78	69·68	78·60
Depreciation on buildings and machinery	117·13	220·00	115·74	218·35
	293·40	426·71	290·42	423·90
Less gain in interest on depreciation funds at 6 per cent...	....	30·85	....	30·78
	293·40	395·86	290·42	393·12

The charges for the double shift have, of course, to be halved to arrive at the charge per shift. The difference between this and the charges for working single shift represents the saving which accrues from working two shifts. The actual saving due to double shift working in a mill turning out cloth of average 20s counts thus amounts to 95·47 pies per loom per day.

It should be explained that our calculation differs from that made by the Bombay Millowners' Association in several respects. We have calculated the additional cost of insurance for double shift working at 50 per cent., for supervision at 33⅓ per cent. and for repairs to buildings at 25 per cent. We have allowed for saving in depreciation on buildings which we have calculated at 3½ per cent. when a double shift is worked against 2½ per cent. for a single shift. We have further allowed for a saving in miscellaneous charges. Our calculation for interest on working capital is based on a working capital of Rs. 1,000 per loom and Rs. 30 per spindle for single shift working for a mill turning out cloth of average 20s and of Rs. 1,100 per loom and Rs. 34 per spindle for double shifts. The figures for a mill turning out cloth of average 32s are Rs. 1,000 and Rs. 1,100 per loom and Rs. 25 and Rs. 29 per spindle for single and double shifts respectively. The last item in our table requires explanation. A mill which is working double shifts is able to build up a depreciation fund nearly twice as rapidly as one which is only working single shifts and has the benefit of the interest on the additional amount it is able to place to depreciation. We give the details of the calculation under this head for a mill on 20s average counts as Appendix X.

On our calculation, the economies which could be effected by double shift working amount to 95·47 pies per loom per day against 61·54 pies per loom per day, as calculated by the Bombay Millowners' Association. For the items, common to both calculations, the total, though reached in different ways, works out at almost exactly the same figure as will be seen from the table below :—

TABLE XXXVIII

	As calculated above		As calculated by the Bombay Millowners' Association	
	Single shift	Double shift (for each shift)	Single shift	Double shift (for each shift)
	Pies	Pies	Pies	Pies
Taxes	11·16	5·58	20·41	10·21
Insurance	16·06	12·04	21·71	10·86
Office and supervision charges..	53·03	32·66	44·20	22·10
Interest on working capital ..	70·61	39·39	73·58	55·19
	150·86	89·67	159·90	98·36

The saving in these items thus amounts to 61·19 pies per loom per day as calculated by us against 61·54 as calculated by the Bombay millowners. To these figures we have added, for the reasons given above, a saving of 2·93 pies on repairs to buildings, of 8·80 pies in miscellaneous charges, of 7·13 pies on depreciation of buildings and machinery and a gain of 15·42 pies in interest on depreciation funds, making a total of 95·47 pies per loom per day. On the basis of 13 pounds production per loom per day, this works out at 7·34 pies per pound of standard grey shirting. The present price of this cloth is about 12 annas a pound and the economies due to double shift working thus amount to 5·1 per cent. of the price of the cloth. For a mill turning out cloth of 32s counts, the economies resulting from double shift working would amount to 93·86 pies per loom per day, or 11·04 pies per pound of cloth. The selling price of the cloth in this instance is about Re. 1-1-0 per pound, so that the economies resulting from double shift working amount to 5·41 per cent. of the price of the cloth. It will thus be seen that our calculation of the advantage arising from double shift working gives practically the same figure as that calculated by the Bombay Millowners' Association. It must, however, be remembered that both our calculation and theirs are for a mill working double shifts in the spinning and weaving departments and it would not therefore be correct to assess the advantage in actual cost of manufacture derived by the Japanese industry as a whole at 5 per cent. Double shifts in the spinning mills are universal but the average hours worked in the weaving mills operated by members of the Japan Cotton Spinners' Association are as we have mentioned above 14·45 hours. We are, therefore, of opinion that the actual advantage in cost of manufacture over the industry as a whole, due to double shift working, cannot, on the basis of calculation as to the advantage such working would give the Indian industry, be placed at more than 4 per cent.

In comparing the relative position of the Bombay mills and those in Japan there is, however, an important advantage derived from double shift working which cannot be overlooked. The saving of 7·34 pies per pound from double shift working, which we have calculated above is a saving on double the production. On the basis of 30 spindles per loom, the capital cost of a loom with spindles at to-day's prices is Rs. 5,450. 8 per cent. is usually regarded in India as a reasonable rate of interest on capital invested in industrial enterprises. In order to obtain this return, a mill working single shifts would have to earn Rs. 436 per loom per annum or 270·04 pies per day. A loom working double shifts would require to earn Rs. 218 per shift per loom per annum only, that is 135·02 pies per shift. Expressed in terms of prices of cloth, this means that a mill working double shifts can, on the basis of a production of 26 pounds of cloth per loom per day, sell its cloth at 10·38 pies per pound less than one working single shifts with a production of 13 pounds of cloth per loom per day and still earn the same return on capital, that is 8 per cent. If, therefore, to the manufacturing cost were added the amount necessary to provide a return on capital of 8 per cent. the mill working double shifts would have a further advantage of 10·38 pies per pound which would bring the

total advantage up to 17·72 pies per pound, that is 12·30 per cent. on the basis of cloth at about 12 annas per pound. These figures are for a mill turning out cloth from yarn averaging 20s counts. For a mill turning out cloth from yarn averaging 32s counts, the corresponding total advantage would be 13·04 per cent. The point which we wish to emphasise is, that the ability to undersell owing to double shift working is not confined to the actual economies in working thus effected.

We would explain that our calculations have been based on double shift working giving double production. The experience of the two mills actually working double shifts in India shows that this is a legitimate assumption and that the production by night in India is not inferior to that by day.

It would have been more logical to give the economies due to double shift working for spinning only before those for both spinning and weaving combined but we have given the latter first in order to show how the basis on which we have worked differs from that adopted by the Bombay Millowners' Association. The figures for spinning only are presented in the table below. Here, again, we give the figures for two mills, one turning out yarn averaging 20s counts and the other of yarn averaging 32s.

TABLE XXXIX

Overhead charges per spindle per day for single and double shift working

	Mill turning out yarn averaging 20s counts		Mill turning out yarn averaging 32s counts	
	Single shift	Double shift	Single shift	Double shift
	Pies	Pies	Pies	Pies
Taxes	0·17	0·17	0·14	0·14
Insurance	0·26	0·40	0·20	0·30
Repairs to buildings ..	0·14	0·18	0·12	0·16
Salaries of supervising staff ..	0·42	0·56	0·36	0·48
Office expenses	0·25	0·25	0·22	0·22
Miscellaneous charges ..	0·27	0·27	0·23	0·23
Interest on working capital ..	1·11	1·26	0·93	1·08
Depreciation on buildings and machinery	2·34	4·42	1·97	3·74
	4·96	7·51	4·17	6·35
Less gain in interest on depreciation funds at 6 per cent.	....	0·62	....	0·52
	4·96	6·89	4·17	5·83

The charges for the double shift have to be halved to arrive at the charge per shift. The actual saving due to double shift working in a mill turning out yarn of average 20s counts thus amounts to 1·51 pies per spindle

per day. On the basis of a production of 6·4 ounces per spindle per day, this amounts to 3·8 pies per pound of yarn. The present price of 20s yarn is 9 annas per pound and the economies due to double shift working thus amount to 3·5 per cent. of the price of the yarn. For a mill turning out yarn of average 32s counts, the actual economies due to double shift working amount to 1·26 pies per spindle per day. On the basis of a production of 3·2 ounces per spindle per day, this amounts to 6·3 pies per spindle per day. The present price of 32s yarn is 13 annas per pound for Japanese yarn and 11 annas for Indian yarn. The economies due to double shift working thus amount to 4 per cent. of the price of the yarn in the one case and 4·8 in the other.

These calculations show the extent to which the economies obtained by double shift working are more apparent in the higher than the lower counts and go far to explain why the severity of Japanese competition is so much more serious in respect of counts over 30s. The different results obtained for the different counts render it impossible to assess the advantage obtained by the Japanese spinning industry in actual cost of manufacture owing to double shift working but in those counts of yarn between 30s and 40s, the price of which, as we have explained elsewhere, depresses the price of Indian yarn, it cannot, we think, be placed at less than 4 per cent. If to manufacturing costs is added the amount necessary to provide a return on capital of 8 per cent. on the basis of the capital cost of a spindle at to-day's prices of Rs. 100, the mill working double shifts has a further advantage of 6·2 pies per pound when working on 20s counts, bringing its total advantage up to 10 pies per pound or 9·2 per cent. The corresponding figure for a mill working on 32s counts is 16·55 pies per pound or 10·6 and 12·5 per cent. respectively according as the price of Japanese or Indian yarn of 32s counts is taken.

State aid to the industry in Japan

33. The Bombay Millowners' Association have also laid great stress on the advantages enjoyed by the Japanese cotton industry in such ways as subsidised freights. The information on this point which we have obtained from Japan is to the effect that the cotton industry, so far as can be ascertained, has never been in receipt of any direct aid from Government in the way of subsidies or other financial assistance so that any advantages it has in these respects merely consist in advantages which are shared by all Japanese industries alike. The Japanese steamship lines between Japan and India receive no subsidies so that the "unfair" competition between Japan and India is not accentuated by this factor. The lines which run between Japan and China received, in 1926, subsidies of from 117,000 yen to 140,000 yen and the Osaka Shoshen Kaisha line which runs a monthly service to the East Coast of Africa calling at such ports as Mombasa and Dar-es-Salaam receives a subsidy of 400,000 yen per annum. This service was inaugurated in 1926. Other subsidised lines run to Hong Kong, the Dutch East Indies, Kwantung Province, the Philippine Islands, the Straits Settlements and Australia but it is not possible to state the exact amount of the subsidy

received in each instance as, in some cases, the published estimates of the amount of subsidies give a lump sum for a group of lines, or for two or more associated services. It need hardly be added that the subsidies paid to shipping services carry with them certain obligations such as the carriage of mails, the maintenance of regular services and the employment of ships conforming to specified standards. It is thus impossible to state exactly the amount of financial assistance which the cotton industry in Japan derives from shipping subsidies but it is clear that it must be considerable.

Reference was also frequently made in the evidence before us to the "export bounties" as they were termed which, it was stated, were given on cotton goods exported from Japan. Our enquiries elicited that the reference was to the consumption tax of 10 per cent. levied on cotton textiles consumed in Japan, a rebate of which was obtained on all goods exported. This tax was, however, abolished with effect from April 1st, 1926, and any advantage which it may have given to exporters has therefore ceased to exist.

Two laws which may possibly assist the exporters of yarn and piece-goods from Japan namely the laws for the establishment of export guilds and of guilds of manufacturers of staple export commodities were enacted in 1925. The following description of the operations of these laws is extracted from a "Report on the Commercial, Economic and Financial Conditions in Japan to June 30th, 1926, by Mr. R. Boulter, C.M.G., Commercial Secretary, His Majesty's Embassy, Tokyo."

"The Export Guilds Law provides that persons engaged in the export of the same staple commodities, or in exporting goods to the same market abroad, may form themselves into guilds for the purpose of co-operative action. Such guilds will engage in the following enterprises:—

1. The export of goods handled by members of the guild.
2. The keeping in custody, sorting, packing, etc., of goods for export and other co-operative work affecting the business of members.
3. The taking of measures for the removal of bad practices in business.
4. The investigation of foreign markets and the opening up of new ones.

The list of goods which may form the objects of the Export Guilds' activities is a long one and includes tissues, pure or mixed, of cotton, silk and wool, hosiery, and most of Japan's minor industrial exports, also certain food products.

The Guilds of Manufacturers of staple export commodities may be organized in the same way as the Export Guilds. They will concern themselves with—

1. The inspection of manufactured articles, and the inspection of materials or of the arrangements for manufacture, etc., of articles for export by members of the guild.
2. The establishment of equipment for the joint use of members, and of other co-operative arrangements useful to the business of members.

3. Advice, investigation, research, etc., for the benefit of members, the finishing of manufactured articles, or their sale, and the supply of goods necessary for the business of members.

The articles prescribed as 'staple export commodities' for the purpose of these guilds cover some, but not all, of those specified in the regulations governing Export Guilds.

Both classes of guilds are accorded exemption from business and income taxes. The Export Guilds are allowed to negotiate bills on preferential terms through the Yokohama Specie Bank and the Bank of Taiwan. The Guilds of Manufacturers of staple export commodities enjoy the benefit of the pre-existing arrangement under which the Hypothec Bank of Japan, the Agricultural and Industrial Banks, and the Hokkaido Colonization Bank loan funds to industrial, fishing, forestry, etc., guilds without security, subject to conditions of repayment after a fixed period or by annual instalments.

Though it is not compulsory for either exporters or manufacturers, having the necessary qualifications, to join a guild, the competent Minister of State may, if he considers it necessary in order to remedy business malpractices, require non-members to conform to the control exercised or restrictions imposed by the guilds.

The laws governing the establishment of these new organisations came into force on the 1st of September 1925, but by the end of May 1926, only ten guilds of manufacturers of staple export commodities had received sanction under these provisions. Eight more applications for guilds of the same kind were then under consideration. Four Export Guilds had applied for sanction and three more were either in course of promotion or were being considered, but none had actually received Government sanction. The delay was explained as being due to the wider scope of the Export Guilds, since in the majority of cases it is intended to license only one guild for the whole of Japan to deal with the exports of each commodity or class of merchandise."

The important point to notice about these laws is that both classes of guilds are accorded exemption from business and income tax. In the absence of more specific information as to the working of the guilds and to the exact relationship between them and manufacturers, it is impossible to say how far they connote any appreciable financial advantage to the Japanese exporters of yarn and piecegoods.

It will be convenient to conclude this summary of the State aid rendered by the Japanese Government to the cotton textile industry by reproducing Mr. Boulter's list of the other official measures adopted by that Government for the promotion of the export trade.

" Other official measures aiming at the promotion of the export trade are :—

1. The collection and exhibition of samples of foreign goods which compete with Japanese products in overseas markets.
2. Research and propaganda in regard to the improvement of the packing of exports.

3. Subsidies towards the expenses of parties of commercial travellers sent to foreign countries.

4. Subsidies for the establishment of commercial museums in foreign countries.

An existing association for the study of national products has been reorganised as an association for the development of national products by some of the principal Chambers of Commerce. Branches of this association, or separate associations, are being established in a number of cities, and an official committee for the same purpose has been created under the chairmanship of the Minister of Commerce and Industry. An exhibition to further the objects of the association is being planned for March 1927."

Dumping of Japanese goods

34. It was alleged by some witnesses before us that Japanese goods were being "dumped" in India but we found on examination that by "dumping" it was merely meant that Japanese goods are being sold at prices with which Indian manufactures are not able to compete. The definition of "dumping" adopted by the Indian Fiscal Commission was "the sale of imported merchandise at an f. o. b. price lower than the prevailing market or wholesale price in the country of production." No facts or figures were produced to show that there is any dumping of Japanese goods in this country in this sense of the term nor was any evidence forthcoming that the prices at which such goods are sold in India are lower than those quoted for them in other foreign markets in which they compete. We have been informed by His Majesty's Consul at Osaka that it is somewhat difficult to effect a satisfactory comparison between the market prices of goods for export and goods for consumption in Japan since it is the exception, especially in the case of piecegoods, to find the same goods used for the two purposes. In some instances, the same yarn is sold under one mark for home consumption and another for export but the reeling in the two cases is different. It is, therefore, possible when goods have been ordered for export for buyers to change the reeling and packing instructions given at any time before the yarn is finished, should it be more profitable to sell in the home market and *vice versa*. This is not infrequently done, especially as the market both for export and for home consumption varies very considerably from time to time, being to a great extent influenced by the season and demand at any given time while there is a great deal of speculation particularly on the part of small dealers in yarn. It cannot, therefore, be said that the price obtained by the mills for the goods for export is always, or even generally lower than the prices they can obtain for the same or similar goods for consumption in Japan. Conditions vary very much from time to time and no general conclusion can be drawn. As regards piecegoods, the position is somewhat similar but it is even more difficult to speak with any degree of certainty as the kinds of cloth made for export and for home consumption are very rarely the same, and it is also the practice of the exporting houses to use private marks which are distinct from those used by the mills themselves. It

often happens, therefore, that the same or very similar cloth is exported by different houses under different marks and this is specially the case with shirtings, satins and printed goods. Grey sheetings and drills are more often exported with mill chops but these goods are little used in Japan, so that a comparison between the prices for export and for home consumption is of no great value. As an example of shirtings, the "Shigi" (Snipe) cloth made by the Toyodo Bosheka Company which is exported by the Nippon Menkwa Company under the private mark "Eiffel Tower 8181" may be cited. This cloth when exported is of 38 yards lengths though for the home market the length is 46 yards. The following were the quotations for the two marks from January, 1925 to August, 1926, the figures in the case of the export cloth being per piece of 38 yards and in that for home use on the basis of the same length less excise duty, *i.e.*, the consumption tax of ten per cent. levied in Japan until April, 1926.

TABLE XL

1925 Date	Eiffel Tower	Snipe	1926 Date	Eiffel Tower	Snipe
	Yen	Yen		Yen	Yen
January 9th ..	13·00	12·95	January ..	No quotations	
February 6th ..	12·00	11·90	February 19th ..	8·80	8·78
March 6th ..	11·50	11·05	March 5th ..	9·00	8·98
April 3rd ..	11·00	10·85	April 2nd ..	9·25	8·96
May 1st ..	10·75	10·63	May 14th ..	8·50	8·10
June 12th ..	11·50	11·45	June 11th ..	8·50	8·26
July 10th ..	12·00	11·87	July 9th ..	9·00	9·08
August 7th ..	11·50	11·45	August 6th ..	9·00	8·87
September 4th ..	11·50	11·45	September 3rd	8·00	8·05
October 2nd ..	10·80	10·75	..	..	..
November 13th ..	10·00	9·90	..	..	..
December ..	No quotations		..	..	..

It will be seen that the difference between the two quotations is very small indeed and that, except in two of the last three months, the quotations for the export cloth are higher than for the cloth used for home consumption. Such evidence as is available on this point, therefore, goes to show that it does not appear to be the case that mills in Japan can as a rule obtain higher prices in the home market than they can for exports and that a charge of dumping in the usual sense of the word cannot be substantiated.

Conclusions regarding unfair competition from Japan

35. Our examination of the nature and extent of Japanese competition will, we think, have established that that competition has exercised and continues to exercise a depressing effect on the Indian cotton mill industry as a whole. We have further shown that the force of that competition has hitherto been most acutely felt in Bombay where, as our comparison between the prices of Japanese imports and the cost of manufacture of

similar goods in an efficient Bombay mill will have shown, the Japanese lines in which competition is most severe cannot be manufactured at a cost which leaves the manufacturer any profit. The question, therefore, for consideration is the extent to which the ability of the Japanese manufacturer to sell at such prices can be attributed to the unfair advantages he possesses, in other words how far the competition between the Japanese and the Indian industry can be regarded as unfair. How far competition can be regarded as unfair is naturally a matter in regard to which it is possible to hold very divergent opinions. A definition of unfair competition has been given in the instructions issued to the Committees appointed under the British Safeguarding of Industries Act. Competition is there held to be 'unfair' when one or more of the following conditions exist: "depreciation of currency operating so as to create an export bounty, subsidies, bounties or artificial advantages, inferior conditions of employment of labour, whether as respects remuneration or hours of employment or otherwise, obtaining among the persons employed in the production of the imported goods as compared with those which obtain among persons employed in the production of similar goods in the United Kingdom." If these tests are applied to Japanese competition in the cotton textile industry, it is found that there is now no depreciation of currency which operates as an export bounty. We have shown that it is impossible to estimate the assistance the Japanese industry derives from "subsidies, bounties or other artificial advantages" but that the cotton industry is in no more favoured position in this respect than any other Japanese industry except to the extent that it is in a better position to make use of such advantages. In any event, we would not ourselves subscribe to the view that State aid in itself constitutes an unfair advantage. The grant of State aid to industry is so universal and the principle is now so generally approved that we consider that the justification for holding that State aid to industry in a particular country constitutes unfair competition is open to considerable question. The third test is that of inferior labour conditions, and here, we think that the element of unfairness undoubtedly enters. If this test be applied it cannot but be held that, both in regard to hours of labour and the employment of women and juveniles at night, the conditions of labour in the Japanese cotton industry are inferior to those in India. In India, the hours of labour for adult males are restricted to 60 per week. In Japan, there is no restriction. In India, juveniles under 16 may not be employed in any factory for more than 6 hours a day. In Japan, juveniles under 15 may be employed up to 12 hours a day in cotton spinning mills when a single shift is worked and up to 11 when two shifts are worked. They may be employed up to 11 hours a day in the cotton weaving industry. In India, the employment of women and children by night is entirely prohibited. In Japan, both women and children under 16 years may be employed at night until June 30th, 1929. To the extent that conditions of labour in Japan in these respects are inferior to those in India and that they bring down the costs of production in the Japanese industry, it must we think be held that there is unfair competition between Japan and India. Our conclusion, therefore, is that unfair Japanese competition

is an important cause of the present depression in the cotton textile industry.

Conditions of labour in Indian States

36. There is one point in this connexion which calls for comment. Our comparison between labour conditions in India and those in Japan in the preceding paragraph is between labour conditions in British India and those in Japan. Reference was made in evidence submitted to us to labour conditions in Indian States in which 43 of the 274 mills working in India are situated. Our information in regard to labour legislation in these is not complete but it can, we think, be stated with confidence that in none of them are any mills working double shifts so that the question of the employment of female labour at night does not arise. So far as we have been able to ascertain, Baroda is the only State in which the hours of labour now exceed those in British territory. In that State, they are at present eleven per day on an average but a Bill on the lines of the Factory Act in force in British India is under consideration, as is also the case in Hyderabad. Mysore already has a Factory Act on British Indian lines. The Indore Factory Act is not as stringent as that in force in British India but the hours of labour in cotton mills in the Indore State were reduced to sixty per week in August, 1926.

Imports from countries other than Japan

37. In our consideration of the extent and character of the imports from Japan, we have to a large extent also examined the nature and character of those from the United Kingdom. We have there shown that in yarn of counts under 40s the United Kingdom has been almost completely ousted by Japan and that in cloth made from counts of 30s to 40s the increase of imports from Japan has been at the expense of the United Kingdom. In these circumstances, we do not consider it necessary to examine the imports from the United Kingdom in the same detail as we have done those from Japan for, large as they are, it was not contended by the Bombay Millowners' Association that either their volume or the prices at which they have been sold have in any way been a contributing cause of the present depression in the industry. Except in so far as the abnormal condition of the imports from the United Kingdom in 1920-21 can be held to have depressed the piecegoods market generally, a point with which we have dealt elsewhere, such a contention could hardly be maintained in view of the fact that as regards volume, the imports from the United Kingdom for the three years 1923-26, the years which we have taken as the years of depression, have averaged 1406 million yards only against a prewar average of almost exactly twice that amount, *viz.*, 2808 million yards; and that, as regards prices, no evidence was adduced before us that Lancashire goods are being sold at prices which 'undercut' Indian prices.

The imports of yarn and piecegoods into India from countries other than the United Kingdom and Japan are not large. As regards countries outside the British Empire and Japan, the imports of yarn during the

last few years have ranged from 1·8 million pounds in 1922-23 to 2·8 million pounds in 1924-25, the figures for the first six months of the current year being 1·1 million pounds. By far the greater part of these are of coloured yarns, 31s to 40s, from Switzerland, which sends about a million pounds, the Netherlands, Italy and Austria in the order named. The imports of yarn from countries in the British Empire other than the United Kingdom are negligible as is also the case with imports of piecegoods, except from the Straits Settlements, from which in 1924-25 4·2 million yards and in 1925-26, 3·6 million yards were imported and from Ceylon, the corresponding figures for which were 1·6 and ·6 million yards respectively. The imports of piecegoods for the last five years have been :—

TABLE XLI

1921-22	1922-23	1923-24	1924-25	1925-26	1926-27 First six months
		(Millions of yards)			
39·6	29	40·3	47·5	55·8	33·3

The shares of the principal contributing countries are shown in the following table :—

TABLE XLII

——	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27 First six months
			(Millions of yards)			
Netherlands ..	12·0	13·2	11·0	11·7	16·5	9·4
United States ..	23·3	7·9	7·4	9·4	15·1	6·8
Italy ..	2·3	2·0	5·8	10·3	10·9	6·6
Switzerland ..	·7	2·6	7·4	7·4	7·4	5·2

The imports from the Netherlands consist mainly of white bleached long cloth and shirtings, of dyed sheetings and of coloured long cloth and sarangs. Those from the United States are mainly of fents of all descriptions though about 2·5 million yards of drills and jeans are imported from that country. The imports from Italy are mainly of printed and coloured flannel and flannelettes and of coloured coatings and trouserings. The most important imports from Switzerland are white bleached goods such as jaconets, mulls and nainsooks mostly embroidered by a process which may almost be considered a monopoly of Swiss manufacturers. The most marked increase in the imports has been from Italy and we received some complaints of increasing competition from Italian coatings and trouserings which was attributed to the depreciated Italian exchange. The Italian imports are still, however, considerably less than they were in the prewar period, the total figures in 1913-14 being 22·7 million yards. That is also true of the Netherlands, the imports from which, in 1913-14, were 24·6 million yards. It cannot, therefore, be said in

regard to imports from any country other than Japan that there has been any change to the disadvantage of India as compared with the prewar position. A word should perhaps be added in regard to imports from China where labour conditions are notoriously unsatisfactory. The imports of yarn from China are negligible, the highest figure being 399,000 pounds in 1924-25. The total imports of piecegoods for the five years from 1921-22 have been, ·7, 2·7, 6·0, 4·8 and 2·2 million yards respectively, practically the whole of which consisted of grey goods.

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CHAPTER VI

EXAMINATION OF THE SUGGESTED CAUSES OF THE DEPRESSION

III.—Other causes: causes affecting the Indian cotton industry as a whole

(a) Currency changes

38. In this and the following chapter, we propose to examine causes other than those considered in the previous chapters which were suggested in the course of the evidence we received as contributing to the present depression. It will be convenient first to deal with those which may be held to affect the industry throughout India. Of these, the one on which most stress was laid by the witnesses before us was the policy in regard to currency which has been followed since the closing of the mints to the free coinage of silver in 1893 and more especially that which has been adopted during the last few years. The whole subject of Indian currency and finance has been recently examined by a Royal Commission and we need hardly say that we are here concerned solely with the effect of currency policy on the cotton textile industry. The Bombay Millowners' Association contend that it has been seriously affected at three stages, that is by the changes which resulted in the establishment of the gold standard and the fixation of the rupee at 1*s.* 4*d.* gold, by the changes in the value of the rupee from 1917 onwards and the unsuccessful attempt to fix it at 2*s.* gold, and by the rise in the value of the rupee since the end of 1923 and its stabilisation at 1*s.* 6*d.* gold. We shall consider the first of these changes in connexion with the loss of the export trade in yarn with China to which in large measure they attribute the present depression. It is unnecessary to examine the changes in the second period in any detail. The effects of the rising exchange were obscured by the abnormal conditions of the post-war period and the very high prices of cloth which then prevailed, but it is noteworthy that the largest imports of Japanese cloth into India were in 1918-19. We have already referred to the events of 1920-21 when, under the stimulus of the high exchange, large orders for cloth were placed in the United Kingdom but were not executed until the rupee had fallen, and have pointed out that the very heavy losses which importers then sustained represented the commencement of a lack of confidence on the part of all dealers in piece-goods which has had serious consequences for the industry as a whole and especially the Bombay section of it.

We shall now proceed to examine the effects on the cotton industry, direct and indirect, of the rise in exchange to 1*s.* 6*d.* gold and the attempts to stabilise it at that figure which, the millowners of Bombay contend, have caused serious disadvantage to the industry. It is not necessary for our purpose to recapitulate the broader grounds on which changes have been recommended by the Royal Commission and accepted by the Government, nor need we affirm our acceptance of the

economic truism that, when the adjustments are complete, the exact figure at which the gold value of the rupee is fixed is a matter of indifference to industry and trade. Our enquiry is limited to an elucidation of the disadvantages that the cotton industry may possibly suffer during the period when adjustment is not complete. That it was incomplete during the early part of the depression is evident, but it is a matter of controversy whether it has since been completed.

A rise in exchange can have adverse effects on the cotton industry by reason of a lag in prices or wages in two ways. Falling prices for cotton manufactures, accentuated, if not actually caused, by the competition of imported cloth, may be unaccompanied by a corresponding fall in the expenses of production. The fall in internal prices, accentuated, if not caused, by lower rupee prices for the staple agricultural exports, may reduce the surplus of the cultivating classes, the chief customers of the industry, which is available for expenditure on commodities including cotton cloth.

With regard to the disparity between the prices and expenses of production of cotton manufactures, it can be seen that a part of the expenses, as was mentioned before the Royal Commission, responds to the new situation. The internal price of raw cotton is adjusted to world prices, though not very readily, judging from the situation at the time of writing when the price of Indian cotton is still some Rs. 30 per candy above what is regarded as its normal parity with American cotton, and the expenses on stores are also reduced. These two items account for between 55 and 65 per cent. of the total outlay, the percentage varying with the prevailing price of cotton. Of the remaining items, that is those which are not responsive to exchange fluctuations, wages constitute the largest single item. Detailed calculations of the burden on the cotton industry as the result of a rise in exchange from 1*s.* 4*d.* to 1*s.* 6*d.* have been made, amongst others, by Sir Victor Sassoon who, in his evidence before the Royal Commission on Indian Currency and Finance said—"I have worked out the difference between the present 1*s.* 6*d.* and 1*s.* 4*d.* rate as very little less than the excise. So to-day, with the excise removed, all we are getting is, I think, a ·03 per cent. advantage over what we would have had if the excise had been left on, and we had our 1*s.* 4*d.* gold as we had last year." It has been explained that this difference of a little less than $3\frac{1}{8}$ per cent. was based on cotton at Rs. 700 per candy though the price of Broach cotton at the time was Rs. 365. In a subsequent calculation submitted to us by the Millowners' Association, the extent of the difference was estimated at 5·65 per cent. on the basis of cotton at Rs. 290 per candy. All such calculations are based on the assumption that wages, which are the least tractable element of the unadjusted group, were fixed on the basis of an actually existent exchange of 1*s.* 4*d.* gold and would have required no alteration if that rate had been undisturbed. As a matter of fact, by far the greater part of the increase in wages in Bombay was given in a period of rising exchange, the greatest single increase, that of February, 1920 when the special allowance was increased from 35 to 55 per cent. for operatives on fixed wages and for winders and to

75 per cent. for piece-workers other than winders, being given in January 1920 when the exchange was over 2*s.* gold. Again, the Ahmedabad millowners were able to secure a reduction of wages in June 1923 when exchange was less than 1*s.* 4*d.* gold and the annual bonus was discontinued in Bombay early in 1924 when exchange was still about 1*s.* 4*d.* gold. Wages thus advanced in the period when high prices coincided with a high exchange, whereas, in 1923, when they were reduced in Ahmedabad, a low exchange coincided with lower prices. The crux of the matter is, therefore, to be found in the fluctuations in the prices obtained for cotton manufactures. It is possible that the rising exchange may have contributed to make the problem of wages somewhat more pronounced by lowering prices, without completely compensating for the fall but, apart from any question of exchange, wages always constitute a difficulty in a period of falling prices, whereas the employer obtains a temporary advantage when prices are rising until the workers demand and obtain a proportionate increase.

The cotton industry may also suffer from a fall in the demand for its products from its large clientele, the agricultural classes of the country, whose purchasing power, it is contended, is affected by the diminution in the number of rupees paid for that portion of their produce which is placed on the market. It is evident that one group among the cultivating classes cannot be affected adversely, that which consists of the landless class which works for wages. Further, to the extent that a part of his produce is consumed and not placed on the market, the fall in prices, which is the reciprocal of the rise in exchange, can have no effect on the resources of the agriculturist. The proportion of his income which is available for expenditure on commodities in the market depends on the proportion his fixed payments form of the total and these consist of land revenue, interest on debt and wages of hired labour. Land revenue, which, it must be remembered, once the settlement has been made, tends normally to be a decreasing burden, and interest charges, even on old debts, press less heavily on the agriculturist than in pre-war years owing to the rise since then in agricultural prices by 40 to 50 per cent., but, on the other hand, there is no doubt that agricultural wages have risen considerably. There are no means of ascertaining what proportion of the total outlay they represent, though it is probable that they have risen more than prices. After these charges have been paid, the balance is expended on commodities such as kerosene, hardware and cloth, etc., all of which have tended to fall in prices with the rise in exchange. Therefore, any reduction in the number of rupees received for the produce placed on the market is compensated by the fact that a smaller proportion of money income has to be devoted to fixed charges, while the prices of the commodities bought in the market have also come down. The real trouble is that, while these have come down with the prices of agricultural produce, their general level as compared with the latter has been considerably higher. As we have pointed out in Chapter IV, while the prices of manufactured articles have fallen, they have not fallen as rapidly as those of agricultural produce, thus reducing the purchasing power of the agriculturist, but this is not a factor peculiar to India.

Our conclusion as regards the stabilisation of the rupee at 1*s.* 6*d.* is, therefore, that coming as it has done at a time of falling prices, it has rendered the problem presented by the disparity between prices and wages in the industry somewhat more pronounced but otherwise has had no appreciable effect, direct or indirect, on its conditions.

Raja Hari Kishan Kaul holds somewhat different views on this point which are explained in the footnote below.*

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*My colleagues admit that the process of adjustment was incomplete during the early part of the depression, in other words that exchange did exert an adverse influence on the industry during a part of the period of depression. In respect of the subsequent period they say 'it is possible that the rising exchange may have contributed to make the problem of wages somewhat more pronounced by lowering prices without completely compensating for the fall.' They also admit that the purchasing power of the agriculturist has been reduced althought they ascribe it mainly to the world factor of prices of manufactured articles falling less rapidly than those of agricultural produce. Whilst I do not hold that the effect of exchange on the cotton textile industry has been so great as has been represented to us by some witnesses, I regret that I cannot subscribe to the arguments adduced by my colleagues to minimise its effects either on adjustment of wages to prices or on the purchasing power of the agriculturist. Nor can I ignore the disadvantage under which it places Indian cotton manufactures in foreign markets. Apart from raw material, wages form the largest item in the cost of production and disparity between wages and prices, particularly in Bombay, cannot be denied. It is not safe to draw any inferences from a comparison of wages with exchange in an admittedly abnormal period when the effect of exchange was obscured by the unprecedented prosperity of the industry or the sharp fall in the price of cotton manufactures which followed it. The additional burden to the cotton industry on account of exchange which has been estimated at 5·65 per cent. on a basis of cotton at Rs. 290 per candy would work out to a higher figure at the present price of Indian cotton, which again has not yet been fully adjusted to world prices on the basis of 1*s.* 6*d.* exchange. When full adjustment takes place, there will, other things being equal, be a further reduction in the price accompanied by a fall in the surplus income of the agriculturist.

The arguments regarding the purchasing power of the agriculturist look well on paper, but with my life-long experience among the agricultural classes, both in my official and in my private capacity, I cannot overlook the facts (1) that the wages of the landless agricultural labourers, where they are not paid in kind, depend upon the income which the agriculturist receives from the sale of his surplus produce, (2) that his purchasing power depends not on the produce which he himself consumes, but on the surplus produce which he is able to sell and, since he has to meet his fixed payments, revenue, debts, interest, etc., from the sale proceeds thereof, even a small fall in prices cripples his resources, (3) that his surplus after meeting the fixed charges is usually very small and that a decrease of even a few rupees therein makes a disproportionately large difference in his capacity for purchasing cloth, etc., (4) that his labour charges, cost of live-stock and expenses incidental to a rise in the standard of comforts, such as it is, cannot be easily reduced, and (5) that with the exception of articles of food which he does not grow or cannot afford to retain in sufficient quantity for his own requirements, cloth is practically the only article with a variable price which the poorer agriculturist purchases in the market. His other requirements are insignificant. They merely consist of kerosene oil, if it is at all used, hardware which is purchased at long intervals, and articles such as salt and spices which are local products and are not readily affected by world prices.

The incidence of land revenue no doubt decreases after settlement, but only if prices rise steadily or, where holdings are subject to fixed assessment, if cultivation is extended. Where cultivation does not increase or prices remain at the same level, the burden remains constant. On the other hand, if cultivation decreases or prices begin to fall, it becomes heavier. Moreover, apart from the unreliability of index numbers, the price of the surplus agricultural produce available to the agriculturist is, with cotton round about the present level in large markets such as Bombay or Karachi, probably not 40 to 50 per cent. higher than in pre-war years.

While, therefore, I agree in the conclusion of my colleagues that 'the stabilisation of the rupee at 1*s.* 6*d.* coming as it has done at a time of falling prices has rendered the problem presented by the disparity between prices and wages in the industry somewhat more pronounced,' I also think that it has had both a direct effect on the condition of the industry and its ability to compete in foreign markets and an indirect effect by reducing, to some extent, the purchasing power of the agriculturist.

(b) *Defects in internal organisation*

(i) *Overcapitalisation*

39. In a time of depression, there is no cause to which the depression is more frequently attributed than defects in the organisation of the industry. It will, however, be obvious from the description we have given of the nature of a trade cycle that neither a boom nor a depression in a particular industry can be attributed to its organisation and that it would be as just to attribute a period of prosperity to an efficient organisation as to attribute a period of depression to a defective one. Defective organisation can at most accentuate a depression: it cannot create it. It was, however, held, in much of the evidence we received, that in no way had the defective organisation of the Indian mill industry manifested itself more than in over-capitalisation during the boom period and that this was specially the case in regard to Bombay. Many of the witnesses before us held, in fact, that over-capitalisation during the boom period was the main cause of the depression in Bombay. In these circumstances, we propose to examine the exact extent of what should, as far as Bombay is concerned, perhaps be more correctly termed recapitalisation during the boom period. In the tables given below, we show the capitalisation of those mills which altered their capital during the boom period for the years 1918 and 1923, that is, for the year before and the year after the boom period. We also give the number of looms and spindles in 1918 and 1923 respectively in order to furnish some material for an estimate of how far the increased capitalisation was justified by an increase in looms and spindles. The figures are taken from the annual statements published by the Bombay Millowners' Association. We have omitted mills the variation in the capital of which has been less than two lakhs:—

TABLE XLIII

Mills	Capital		Spindles		Looms	
	1918	1923	1918	1923	1918	1923
	Rs.	Rs.				
Assur Veerjee	5,01,000	15,01,000	29,192	39,208	..	600
Birla Mills No. 1	12,25,000	60,98,800	19,086	19,086	..	..
No. 2	5,91,000	....	36,688	46,400	..	400
Bradbury	10,00,000	24,85,000	35,584	35,884	661	600
China	10,00,000	13,25,000	46,064	46,064	..	..
Diamond	5,50,000	33,05,162	28,672	34,552	672	758
Gold Mohur	7,64,000	27,62,450	35,984	38,126	..	1,049
Kasturchand	18,00,000	47,74,250	21,368	76,170	887	913
Khachand	16,00,000	41,25,000	15,000	43,362	..	..
Madhorao Scindia ..	9,00,000	38,00,000	41,656	43,980	..	604
Mathradas	14,40,000	24,00,000	25,060	43,192	728	904
Ruby	3,00,000	12,00,000	9,468	11,996	258	865
Simplex	15,00,000	22,50,000	32,892	37,612	1,605	1,607
Total ..	1,21,71,000	3,60,26,662	376,714	515,632	4,811	7,791
Hongkong including Woollen Mill	7,50,000	90,36,480	21,876	30,244	568	898

It will be seen that, while the paid-up capital, exclusive of the Hongkong Mill, increased by Rs. 2,38,55,662 or 196·0 per cent., the number of spindles increased by 138,918 or 36·8 per cent., and of looms by 2,980 or 61·9 per cent. The managing agencies of all the above mills with the exception of the Birla No. 1 Mill changed hands during this period. It will further be seen that in most of these cases, the increase in capital was accompanied by an increase in the number of looms and spindles. The table, therefore, presents both aspects of overinvestment in a boom period, *i.e.*, capitalisation at inflated values and extensions at the high prices which prevail in such a period. It should perhaps be mentioned that, after 1923, the capital of the Diamond Mill, the mill which was recently bought by the Japanese, was increased from Rs. 33,05,162 to Rs. 38,99,430 without any increase in looms or spindles and that of the Gold Mohur Mill from Rs. 27,62,450 to Rs. 30,62,450 with an increase in spindles of about 4,300. Another mill which does not figure in the above list but was recapitalised after 1923 is the Planet Mill, the capital of which was increased from Rs. 15 lakhs to Rs. 20,96,250, although there was a decrease in the number of spindles by 3,700. In the table below, we give similar figures for those mills which were proprietary mills in 1918 :—

TABLE XLIV

Mill	Paid-up capital		Spindles		Looms	
	1918	1923	1918	1923	1918	1923
Alexandra	Proprietary	Rs. -	33,288	36,480	758	796
E. D. Sassoon			74,812	88,606	841	841
Jacob Sassoon		6,00,00,000	104,266	1,02,688	2,079	2,072
Rachel Sassoon			....	....	2,013	2,020
E. D. Sassoon Turkey Red Dye Works ..			Not stated.			
Apollo		25,00,000	39,654	39,654	..	..
Bombay Industrial ..		19,98,750	24,432	24,432	566	566
Elphinstone		50,00,000	48,998	49,064	764	764
Jubilee		15,00,000	34,656	38,444	..	278
Total ..	..	7,09,98,750	3,60,104	3,79,368	7,021	7,337

It may be mentioned that the Hongkong Mill shown in the preceding table have since been absorbed in the E. D. Sassoon United group, the paid-up capital of which has not, however, been increased in consequence.

This survey would be incomplete without a reference to the mills which, without a change of managing agency, increased their capital during this period. They are given in the following table :—

TABLE XLV

Mill	Capital		Spindles		Looms	
	1918	1923	1918	1923	1918	1923
	Rs.	Rs				
Bombay Dyeing and Manufacturing Company—						
Textile ..	31,12,000	62,74,500	48,348	109,848	1,672	3,116
Spring ..			56,752	70,448	1,751	1,716
Sir Shapoorji Broacha ..	50,00,000	74,92,600	80,576	97,288	833	671
Total ..	81,12,000	1,37,67,100	1,85,676	2,77,584	4,256	5,503

The increased capital in the case of the Bombay Dyeing and Manufacturing Mill was provided by the capitalisation of reserves. The managing agency of the Sir Shapoorji Broacha Mills has changed hands since 1923 but without any increase of capital.

The following mills have increased their capital since 1923 without any change of managing agency :—

TABLE XLVI

Mill	Capital		Spindles		Looms	
	1918	1925	1918	1925	1918	1925
	Rs.	Rs.				
Finlay	20,00,000	40,00,000	46,072	46,072	812	812
Khatau Makanji ..	9,95,000	30,00,000	44,284	62,844	1,075	1,511
Swan	10,00,000	24,00,000	31,616	31,616	600	600
Total ..	39,95,000	94,00,000	121,972	140,532	2,487	2,923

The increased capital of the Swan and Finlay Mills was provided by the capitalisation of reserves in the form of bonus shares and that of the Khatau Makanji Mill by the issue of fresh capital. It will thus be seen that nearly thirty of the 83 mills shown in the Bombay Millowners' Association's annual list may be said to have been affected by the tendency to over-investment in the boom period and that at any rate a large number of these must be held to be over-capitalised at present values. The picture presented by Ahmedabad is a very different one. The changes in managing agencies and in capital during this period were

very few. They are shown in the following tables, the first of which is for mills, the managing agencies of which did not change hands :—

TABLE XLVII

Mill	Capital		Spindles		Looms	
	1918	1923	1918	1923	1918	1923
	Rs.	Rs.				
Ahmedabad Cotton and Waste..	3,00,000	6,00,000	10,920	21,300	..	..
Ahmedabad Jubilee ..	3,45,000	10,00,000	20,832	42,216	351	827
Ahmedabad Manufacturing and Calico Printing Company ..	10,00,000	20,00,000	40,768	90,652	1,106	1,559
Aryodaya Spinning and Weaving Company ..	10,00,000	11,00,000	37,828	41,208	1,212	1,178
Bharatkmand Textile ..	4,25,000	8,50,000	16,344	22,544	432	480
Gordhan	3,87,000	7,84,115	8,168	17,064	200	200
Gujarat Cotton	7,09,750	10,50,250	21,500	22,864	338	489
Rajpur	50,795	1,01,600	..	..	52	126
Saraspur	5,00,000	6,00,000	33,824	33,824	630	638
Total ..	47,17,545	80,85,965	190,184	271,672	4,321	5,497

A similar table is given below for those mills the managing agencies of which changed hands during this period :—

TABLE XLVIII

Mills	Capital		Spindles		Looms	
	1918	1923	1918	1923	1918	1923
	Rs.	Rs.				
Hatim	7,71,160	10,26,040	17,500	18,150	400	408
Shrinagar	58,500	2,18,285	..	..	217	215
Universal	1,99,825	9,32,815	..	..	198	260

The table below gives the new mills which were erected and were working in Ahmedabad during this period :—

TABLE XLIX

Mills	Capital		Spindles		Looms	
	1918	1923	1918	1923	1918	1923
	Rs.	Rs.				
Ahmedabad Jupiter ..	....	8,00,000	..	..	..	376
Ahmedabad Vishnu	....	7,03,530	..	5,552	..	..
Asoka	....	24,00,000	..	26,672	..	600
Indian Spinning and Weaving ..	....	9,23,490	..	14,500	..	300
Marsden	....	11,49,100	..	..	..	336
Shri Vivekanand	....	8,97,475	..	..	..	221
Silve	....	9,60,000	..	15,840	..	..

It is unnecessary to examine the capitalisation of upcountry mills in such detail. The cases shown in the following table are, however, worthy of mention :—

TABLE L

Mills	Capital		Spindles		Looms	
	1918	1923	1918	1923	1918	1923
	Rs.	Rs.				
Model Mill, Nagpur ..	....	97,84,250	..	45,000	..	900
Darbhanga Spinning and Weaving Mill, Navsari ..	....	35,52,350	..	19,736	..	576
Saraswati Ginning Mill, Broach.	6,00,000	30,00,000	18,464	18,464	444	444
Surat Cotton Proprietary ..	....	30,00,000	14,476	15,680	282	302
Sir Hukamchand Mill, Akola ..	9,00,000	34,81,975	21,400	22,476	456	457
Jiyajee Rao Mill, Indore ..	....	35,00,000	..	25,000	..	598
Kalyanmal Mill, Indore ..	....	40,80,100	..	21,600	..	720
Kesoram Mill, Calcutta ..	25,00,000	80,00,000	85,048	78,536	1,260	1,290
New Victoria Mill, Cawnpore ..	22,00,000	1,35,00,000	107,000	102,800	1,400	1,500

The inference which, we think, may legitimately be drawn from the above examination is that the tendency to over-investment in the boom period was much more marked in Bombay than it was elsewhere and that Ahmedabad was comparatively little affected. Whilst, as we have stated above, we hold that over-capitalisation cannot be regarded as a cause of a depression, since inability to pay dividends will exist whatever the amount of the capital, we consider that it undoubtedly tends to accentuate a depression. It does so not only on account of the general lack of confidence it engenders once the boom has burst, but also because some portion of the dividends paid on the enhanced capital during the boom period would, if there had been no enhancement of capital, almost certainly have been placed to reserves or used for depreciation and would thus have placed the mills in a stronger position to meet depression. An examination of the balance sheets of the Bombay mills furnishes convincing evidence that those mills which did not increase their capital during the boom period are now in the strongest position. We cannot but hold that the fact that the tendency to over-investment was so much less marked in the boom period in Ahmedabad than it was in Bombay, is one of the reasons why the depression has been less felt there than in Bombay. It may be of interest to note that Ahmedabad with 54 mills, 1,311,939 spindles and 28,507 looms has a total paid-up capital of 3·25 crores against a paid-up capital for Bombay with 3,456,233 spindles and 72,266 looms of Rs. 19·21 crores. Bombay, therefore, with less than three times the looms and spindles of Ahmedabad has almost exactly six times the paid-up capital of the latter. It must, however, be remembered in considering these figures that it has been the practice in Ahmedabad to raise by loans a proportion of the block capital required for the establishment of a mill, and also that the cost per spindle

would in any case be lower in Ahmedabad than in Bombay owing to the higher average count spun in the former centre.

We, therefore, give below figures showing the average capitalisation per spindle in Bombay and Ahmedabad in 1918, 1923 and 1925 respectively, on the basis of the total paid-up capital in both centres.

TABLE LI

	1918	1923	1925	Percentage increase of 1925 over 1918
	Rs.	Rs.	Rs.	
Bombay ..	27·9	44·4	42·2	53
Ahmedabad ..	16·9	20·0	19·3	14

There are a few mills in both places which have no spindles. It is unnecessary, however, to separate them out for our present purpose which is to show the increasing disparity of the capitalisation per spindle in Bombay and Ahmedabad during the boom period. The following statement of conditions in this respect in Japan may be of interest.

TABLE LII

Year	Paid-up capital	Total number of spindles	Average per spindle
1915	Yen 8,60,11,677	2,807,514	Yen 30·63
1920	,, 27,65,35,896	3,813,580	,, 72·51
1925	,, 35,18,04,817	5,185,632	,, 67·84

These figures which are calculated from the returns compiled by the Japan Cotton Spinners' Association are for spindles exclusive of weaving facilities. The figures inclusive of weaving facilities, one loom being regarded as the equivalent of fifteen spindles, presumably owing to double shift working, are as follows :—

TABLE LIII

Year	Paid-up capital	Total spindles including looms	Average per spindle
1915	Yen 8,60,11,677	3,258,534	Yen 26·40
1920	,, 27,65,35,896	4,572,325	,, 60·48
1925	,, 35,18,04,817	6,208,032	,, 56·67

We have already referred to the extent to which investment in mill machinery increased during the boom period and also to the extent to which machinery arrived after the boom had burst. The table below which gives the total investments in cotton mill machinery since 1912-13, the first year in which figures for this class of imports were separately recorded, brings the point out very clearly.

TABLE LIV

	Rs.			Rs.	
1912-13 ..	1·14	crores	1919-20 ..	1·31	crores
1913-14 ..	1·79	,,	1920-21 ..	3·67	,,
1914-15 ..	1·51	,,	1921-22 ..	7·64	,,
1915-16 ..	1·20	,,	1922-23 ..	8·49	,,
1916-17 ..	1·29	,,	1923-24 ..	5·60	,,
1917-18 ..	1·17	,,	1924-25 ..	2·68	,,
1918-19 ..	1:65	,,	1925-26 ..	2·35	,,

(ii) Distribution of dividends in the boom period

40. Closely bound up with the subject of over-capitalisation is that of the distribution of dividends during the boom period. It was contended in evidence before us that these were unduly high and that in this fact is to be found one of the causes of the present depression. We would again emphasise the view put forward in the preceding paragraph. Neither over-capitalisation nor unduly high dividends in a boom period can be said to be the causes of a subsequent depression. The statements we have given in paragraph 12 above show that for the four years of maximum profits, 1919 to 1922 inclusive, the dividends paid by the Bombay mills represented 40·1, 35·2, 30·0 and 16·4 per cent. respectively on paid-up capital, but it must be remembered that the dividends paid in the three latter years were on a capital which was some 80 per cent. higher than that of the first year. If the figures for the largest flotation for this period are omitted, the dividends for 1920, 1921 and 1922 were 47·0, 40·5 and 21·5 per cent. respectively. The Bombay Millowners' Association contend that it is the percentage of dividend to the original cost of land, buildings and machinery which should be considered rather than the percentage of dividend to paid-up capital. Appendix VI shows that on this basis the percentages of dividends in the four boom years were 18, 17·8, 14 and 6·8 per cent. respectively which, they hold, cannot be regarded as unduly high in a time of prosperity. Even if this contention is accepted as valid, the fact that, owing to the flotations of the boom period, the "original" cost of land, buildings and machinery as shown in the Bombay Millowners' Association's statement also increased by 60 per cent. in 1920 and 80 per cent. in 1921, as compared with the figures of 1919 cannot be overlooked. An examination of the balance sheets of the Bombay mills shows that for 1920, 35 companies comprising 42 mills declared dividends of 40 per cent. and over of which 10 companies comprising 14 mills paid 100 per cent. and over and two mills paid over 200 per cent. In 1921, the number was 41 companies comprising 47 mills out of which 9 companies comprising 11 mills paid dividends of 100 per cent. and over. In 1922, it fell to 29 companies comprising 34 mills of which 4 paid dividends of 100 per cent. and over and in 1923 only 7 mills paid dividends of 40 per cent. and over.

Whatever criterion be adopted, it must, in our view, be held that the dividends paid during the boom years were unduly high. This criticism holds even more of 1918 than of subsequent years, for in that year

no less than Rs. 192 lakhs out of the net profits of Rs. 228 lakhs were distributed in dividends. It was argued that the reason for this was the favourable outlook in 1919, but if the proportion of dividends to profits in 1918 had been kept down to reasonable limits, there can be little doubt that this would have done much to check the speculation of the following years so far as it affected the mill industry. In other words, a cautious financial policy in 1918 would have subsequently proved of immense service to the industry. The best test is that of results and, judging by these, it is obvious that if the Bombay mills had husbanded their resources to a greater extent in the boom years and still more in the years which preceded them, they would have been in a better position to meet the subsequent depression. It must be admitted that it is not an easy matter to withstand either the clamour of shareholders who fail to realise that no boom lasts or the influence of the share market, the transactions in which in a boom period often bear little reference to what was called by some witnesses the "intrinsic" value of a share. Dividends in boom periods are apt to be governed by the share quotations rather than the quotation by the dividend. One very striking example of the results of cautious finance may be mentioned here. One mill in Bombay with a capital of Rs. 8 lakhs of which Rs. 2 lakhs were ordinary shares and Rs. 6 lakhs preference, utilised part of its profits during this period to pay off its preference shares and has in the last two years paid dividends of 150 and 130 per cent. respectively.

In justice to the Bombay mill industry, it must be pointed out that, as will be seen from the tables we attach as Appendix XI, the dividends paid by the mills in Bombay were, on the average, not on a higher scale than those paid by mills in Japan during the same period. In one respect, the Japanese mills showed greater foresight than the Bombay mills, namely, in regard to amounts written off to depreciation. The Bombay mills contented themselves throughout with little more than the usual allowance of 2½ per cent. for buildings and 5 per cent. for machinery. The Japanese mills from 1916 to 1920 were writing off from 10 to 15 per cent. annually, the average per half year for these five years being 6·8 per cent. It must, however, be remembered that double shift working renders a higher rate of depreciation necessary.

Only a brief reference to this question so far as it affects Ahmedabad and other upcountry mills appears called for. The statement for Ahmedabad given in paragraph 12 above, which unfortunately, only goes back to 1921 shows that, even if it were held that the distribution of dividends in that year was unduly high, this can hardly be considered to be a factor which has had any important influence on subsequent events as the industry in that centre is still in a position to pay reasonable dividends. Conditions in upcountry centres, as we have frequently had occasion to mention, vary so greatly that it is impossible to hold that the distribution of unduly high dividends by a particular mill has had any appreciable effect except on the subsequent fortunes of that mill.

(iii) The managing agency system

41. A further cause of the present depression which was suggested for our consideration was the existence of the managing agency system and a number of witnesses before us advocated its immediate replacement by the system of ordinary company management under managing directors as a solution of the difficulties from which the mill industry is suffering. The advantages of the managing agency system, as compared with the system of managing directors, were examined by the Indian Industrial Commission whose description of the system and conclusions on the point we reproduce :—

> " A characteristic feature of organised industry and commerce in all the chief Indian centres is the presence of the large agency firms, which, except in the case of Bombay, are mainly European. In addition to participating in the export and import trade, they finance and manage industrial ventures all over the country and often have several branches in the large towns. The importance of these agency houses may be gauged from the fact that they control the majority of the cotton, jute and other mills, as well as of the tea gardens and the coal mines. This system originated and has still continued owing to the ability of these houses to furnish financial help to industries ; it also owes its existence to some extent to the difficulty, in the case of companies under European control, of finding among the relatively small class of leading men of business available in India directors who will remain in the country long enough to guarantee the continuous supervision requisite for the successful conduct of such business. An agency firm as a rule comprises several partners, some of whom are taking their turn of duty in India, while the others attend to the firm's affairs in London or elsewhere. There is no doubt but that the system is in many ways well adapted to present conditions in India, and has a far greater list of successes to its credit than can be shown by ordinary company management under individual managing directors. We are much impressed by the strong evidence of the high financial prestige possessed by the better class agency firms and of the readiness of the investing public to follow their lead, a position only reached we recognise, by a policy extending over many years of efficient management, cautious finance and watchful attention to the interests of client enterprises. Nevertheless, they have not escaped criticism as being unduly conservative in their methods of business and as exhibiting undue reluctance to embark on new ventures. They have been charged with lack of enterprise and an unwillingness to follow up lines of development naturally proceeding from the expansion of operations in their own specialised industries. In other words, they have been inclined to develop commerce rather than industries, and have thus been at times less helpful than might have been the case in clearing the way for continuous industrial progress."

The contention that the managing agency system is a cause of the present depression can be disposed of in a few words. We have shown that the depression is world wide and the fact that it is even more prevalent in

Lancashire than it is in India is in itself sufficient to show that it is not any particular system of management which is in any way responsible for it. But we cannot but think that the defects of the system are more apparent in a time of depression than in a time of prosperity and that the evidence we have received shows that, so far as Bombay is concerned, the criticisms of the system mentioned by the Indian Industrial Commission are not without foundation. We shall give reasons in a later chapter for our view that the Bombay mill-owners have been unduly conservative in their methods of business and have exhibited undue reluctance to embark on new ventures and it will be obvious that what Sir Victor Sassoon considered in his evidence before the Royal Commission on Currency and Finance as the most valuable function of the managing agency system, namely, that of arranging finance for the concerns they manage, is one which bears heavily on them in a time of depression, especially when this follows on a concentration of managing agencies. It is noteworthy that two firms of managing agents in Bombay now control 23 of the 83 mills in Bombay shown in the Millowners' Association's statement. These mills between them account for half the paid up capital of the entire Bombay mill industry and about two-sevenths of the looms and spindles, and, in view of the large amount of finance required, it certainly cannot be held that this has, in the conditions of the last few years, tended to strengthen the Bombay mill industry especially as both groups include flotations of the boom period. We attach as Appendix XII a list showing the managing agents, the mills they control with paid up capital and the numbers of looms and spindles.

We do not propose to enter on any discussion of the merits of the managing agency system as compared with the system of managing directors. The managing agency system is the outcome of conditions which are peculiar to India. It has, so to speak, grown up with India's industrial development and, so far as can be seen, there does not appear any immediate probability of a change. Any pressure in the direction of an alteration from the system of managing agents to the system of managing directors can only come from the industry concerned. In these circumstances, an expression of the views of a Board such as ours would be of no value.

One of the criticisms levelled against the managing agency system in Bombay was that, owing to the multiplicity of their other interests and the situations of their offices at a distance from the mills, the managing agents are not in as close touch with the mills as is desirable. In regard to this, it must be pointed out that some of the most successful mills in India are situated in upcountry centres while the managing agents have their offices in Bombay. None the less, we were much impressed by the contrast between Ahmedabad and Bombay in this respect. In Ahmedabad, there are very few agents with more than one or two mills to look after. Their offices are on the mill premises and their constant attendance at the mill enables them to keep that close watch on incomings and outgoings which is essential if costs of production are to be kept down to the lowest possible limit and also to maintain close contact with possible

customers and to make arrangements for manufacture to suit their requirements. We shall discuss this further at a later stage but would here say that, in this characteristic of Ahmedabad is to be found one reason why, in our view, that centre has fared so much better during the last three years than has Bombay.

The system of remuneration of the managing agents was also attacked. The three systems in force are :—

1. The system of remuneration by commission on profits which, since profits increased so largely during the war period, has been the most common system in Bombay and in most upcountry centres where it was, we believe, first adopted in 1888. The commission in Bombay ranges from 7½ per cent. to 12½ per cent. but, in the majority of cases, it is 10 per cent. and the managing agency agreement usually provides for a minimum commission.

2. The system of commission on production which is still in force in a few mills in Bombay and Ahmedabad but is more common in upcountry centres. The usual rate of commission is three pies per pound. In most cases, provision is made in the managing agents' agreements for the relinquishment of a portion of the commission according to the percentage of dividend distributed.

3. The system of commission on sales which is the most common system in Ahmedabad where it was introduced in 1895. It practically completely replaced the system of commission on production in 1917 when the era of high prices set in. It is also in force in three mills in Bombay and in several mills in upcountry centres. The rate of commission is usually 3½ per cent. In this case also, provision is made in the managing agents' agreement for a relinquishment of a portion of the commission.

It will be evident that, in a year of prosperity, the commission on profits or on sales must considerably exceed that on production and that in a year of depression the commission on profits must be considerably less than that on sales or on production. Of the three systems, we have no hesitation in considering that of commission on profits the best. The great defect of the system of commission on production is that it tends to concentrate attention on output rather than on quality, but a greater objection to that system is that it removes the incentive to the disposal of production at the best possible price. Both these objections apply, though in a less degree, to the system of commission on sales. The mills which adopt this system, unless they are managed by agents who hold the majority of the shares, are obviously only concerned with getting rid of their production and not with the price at which it is disposed of. Calculations we have made show that, over a series of years, the system of commission on sales is the most expensive of the three. In prosperous times, the system of commission on profits is comparatively expensive, but, again over a series of years, it seems probable that it is not more so than either of the other two and it is undoubtedly the system which should furnish the greatest stimulus to efficient working. A feature of it which is, however, open to objection, as it is worked in Bombay and to which we shall have occasion to refer

later, is that the profits on which it is calculated are arrived at before allowance is made for depreciation. It will be clear from this examination that the system of remuneration of managing agents has in no way either caused or contributed to the depression which is more acute in Bombay than elsewhere, in spite of the fact that it is in that centre that the system of commission on profits, which we consider the most satisfactory, is the one most generally adopted.

Both in Bombay and Ahmedabad, the constitution of the Boards of Directors of the mills was the target of much criticism for which there was, in our view, considerable justification. It was contended that few, if any, of the directors took an active interest in the affairs of the mills with which they were connected and that fewer still had any technical qualifications for appointment. Strong support for the first of these contentions is furnished by the evidence of a witness who is a director of no less than thirteen mills in Bombay, of the Board of Directors of several of which he is chairman and for the second by the fact that, of the 175 directors of the mills in Bombay, there are only eleven who have received practical training.* It is noteworthy that no less than four of these are directors of one of the most successful mills in Bombay and of that mill only.

A further criticism which was brought against the managing agency system, especially in Ahmedabad, was that the tendency for the agency to be passed on from father to son or to some other relative and to be regarded somewhat in the light of a family possession does not promote efficiency, since it does not follow that business capacity is inherited with the succession to the agency, especially as very few agents take the trouble to train those who will succeed them in the technique of management. On the other hand, it was urged that the retention of the managing agency in the same family causes a business to be regarded as something more than a mere commercial concern and that this, in some cases, has operated distinctly to the advantage of shareholders as, in bad times, private fortunes have been devoted to the assistance of a business which would otherwise have collapsed. There is much force in both views and it is, therefore, not easy to determine whether the defects of what was described to us as the hereditary system of managing agency have outweighed its advantages.

Allegations were also freely made that the present condition of the industry could to some extent be attributed to malpractices on the part of managing agents. It was stated that speculative purchases of cotton are frequently made by managing agents and that, if these result in a loss it is passed on to the mill, whereas, if a profit is realised on the transaction, it is retained by the managing agent. It was further alleged that managing agents received commissions on purchases of cotton, machinery mill-stores, coal and liquid fuel as well as on sales of cotton, yarn and piece-goods and on insurance premiums which are not passed on to the

*We are indebted for this information to "Bombay Industries: The Cotton Mills" by Mr. S. M. Ratnagur, which is under publication and of which an advance copy was sent us by the author.

mills, in other words that stimulus to efficiency is removed by the fact that, whatever the position of the mill, the managing agent is sure of a profit on transactions connected with it. Though allegations of this character were made by several witnesses, it is perhaps not surprising that no substantive evidence was brought forward in support of them. The authority quoted in all cases was merely rumour or statements which have appeared in the press. It is significant that, when questioned *in camera* on the point, the witnesses who made statements of this kind were never able to give the names of more than one or two mills and that these names were almost always the same. We are, therefore, satisfied that no general indictment of the mill industry can be established under this head and that the practice of receiving secret commissions, if it exists at all, is exceptional. There are one or two cases in which managing agents are also agents for firms which deal in machinery but there was no evidence to show that this is detrimental to the mills they manage, though there is a possibility that the managing agent may be inclined to purchase for his mill the machinery for which he is also agent without due regard to its comparative cost. In one or two cases also, the managing agents act as guarantee brokers to their mills, that is they guarantee the mills against losses on sales whereas, in the great majority of mills, this function is undertaken by an independent individual or firm. In cases where the managing agent acts as guarantee broker, the commission on sales is of course received by him. The objection to this practice is that the interests of the mills are obviously better served when the risks arising from defaults by purchasers are spread over a wider field. We received evidence in Ahmedabad that the adoption of this practice had, in one instance, resulted in the proceeds of sales remaining with the managing agent instead of being passed on to the mill. This was only discovered after the mill had gone into liquidation. In any case, neither practice is sufficiently common appreciably to affect the efficiency of the industry.

The position is somewhat different with the commission on fire insurance. Several managing agents are also agents to fire insurance companies, their activities in this direction being, however, confined to their own mills. We were informed by the representatives of the Bombay Millowners' Association that the rules of the insurance companies lay down that no part of the agents' commission on premiums shall be passed on to the mills. The objections to this arrangement are that it prevents combined action on the part of the millowners in regard to insurance rates, as managing agents naturally do not care to place themselves in a position which not only involves opposition to the insurance companies of which they are agents but may also result in the loss of their commission.

The practice, which is not uncommon in Ahmedabad, of investing the surplus funds of mills with firms of shroffs instead of with banks was the subject of unfavourable comment especially when, as in some instances, the firm of shroffs is identical with that of managing agents. This practice appears to have originated in a desire to afford facilities to merchants for the payment of goods after the banks have closed.

This practice involves no risk so long as the financial position of the firm of shroffs is sound but, as these firms do not publish any balance sheets, neither managing agents, directors nor shareholders have any means, beyond general information, of ascertaining whether it is so or not and the system, therefore, appears to us to be open to grave objection.

Objection was also raised to the investment of the surplus funds of one concern in, or the loan of such funds to another concern under the same managing agency. Only one instance of this character came to our notice in Bombay but such cases have been more common in Gujarat and the evidence we received in Ahmedabad showed that some mills which were intrinsically in a perfectly sound financial position had been forced into liquidation as the result of the loan of their surplus funds to weaker mills under the same managing agents. The criticism of this practice is, in our view, justified but it is clear that it is exceptional and that very few mills have been affected thereby.

Except, therefore, to the extent to which it can be held that the defects in the managing agency system to which we referred at the outset, namely undue conservatism and lack of initiative, have contributed to the present depression, we do not consider that the managing agency system can be regarded as being responsible for existing conditions. It is obviously impossible to come to any other conclusion in view of the fact that while the managing agency system is general throughout the industry, the extent of the depression, as we have pointed out in paragraph 12, varies so greatly in different parts of India.

(iv) Inefficient machinery

42. Another cause which, it is alleged, has contributed to the present depression is the use of old machinery in Indian mills. It is impossible to generalise on this point in the absence of a detailed census of the machinery in use in the different mills, but the rapid expansion of weaving in recent years is in itself sufficient refutation of the charge as regards looms. The number of looms in Indian mills has more than doubled since 1909 and there can thus be comparatively little old machinery in the weaving department of the mills. The expansion in the spinning department has been much less rapid, the increase in spindles since 1909 having been only about 40 per cent. We noticed, in the course of our inspections, a good deal of old machinery in use in the spinning departments of some mills we visited but it must be remembered that the manner in which machinery is looked after is even more important than its age. Where, as happened in some upcountry centres, mills were started during the boom period with second-hand machinery obtained at high prices, the result was naturally disastrous but, speaking broadly, the use of old machinery can hardly be held to have affected the fortune of the mill industry in India except to a very small extent.

(c) Finance

43. Another cause of the present depression which was suggested to us by several witnesses and which may here be conveniently examined was the difficulty in obtaining finance which is at present encountered both

by mills and by dealers in piece-goods. This difficulty is not peculiar to India in a time of depression but there are certain features of the banking and credit system which are peculiar to India and which tend to accentuate a depression in this country. It is not in India alone that industries rely largely for their working capital on external sources but a distinctive feature of the Indian cotton industry is the extent to which it is dependent for this capital on short term deposits, usually for six months or a year. In times of depression, the weaker mills find it difficult to obtain such deposits and it is at such times that they are specially needed owing to the accumulation of stocks. Apart from such reserves as can be used for this purpose, the working capital required by the mills which is not obtained by means of fixed deposits is obtained from banks in the shape of advances either by way of cash credits or of loans though, in Ahmedabad, loans are sometimes taken from private firms of shroffs who, in return, receive a share in the managing agency commission in addition to the interest on the loan. It was pointed out to us that the mills in India are dependent on these two sources for working capital to a larger extent than they are in other countries which are more advanced than India in banking matters, for, whereas in such countries supplies of cotton or stores are covered by bills of exchange at 60 to 90 days sight and the mill is, therefore, able to keep control over a large supply of the necessary cotton, etc., for its near future requirements without having to lock up capital, an Indian mill has immediately to provide the cash necessary for its purchases. Many of the mills are able to get a part of the finance required by means of loans or cash credits from their bankers but, even so, a large amount has to be found from other sources since the banks, not unnaturally, are unable to agree to the principle of making advances in excess of the liquid assets of the mill, less a reasonable margin, as this would be tantamount to financing the block account. The margin the mills have to find from other sources is placed at 25 to 30 per cent. Further, every mill of any size which carries large stocks of cloth requires additional finance which has to be arranged in the same way.

The evidence before us tended to show that the system of cash credits has drawbacks in a time of depression, when elasticity is specially required, not only because the amount is repayable at short notice but also because, when prices are falling, the banks have to call on the mills to reduce their cash credits or to increase their securities as the securities on which they have been advanced have deteriorated in value and this happens at a time when it is obviously specially difficult for the mills to adopt either of these courses. It was suggested that the demand for immediate repayment as soon as a concern is found to be in difficulties leads to forced sales and thus depresses the industry. It is obviously impossible to estimate the extent to which the factor of finance has contributed to accentuate the depression and the evidence we received on this point was very indefinite in character but there can be no doubt that the staying power of the weaker mills has been affected by the necessity of reducing their cash credits with the banks and that such mills have had perforce to liquidate their stocks at prices which contribute to force

down the level for the whole industry. It was argued before us that prices in Bombay are determined by the stronger mills and not the weaker ones but it is difficult to believe this and it certainly is not consistent with the contention that it is Japanese competition which determines the level of prices.

It would seem that such facilities as banks are prepared to offer, even in present conditions, are not fully utilised as many managing agents are unwilling to avail themselves of them owing to their objection to hypothecate goods to the banks on the ground that this involves visible control by the banks which would lower their standing in the eyes of their creditors and of the investing public and thus increase the difficulty of obtaining fixed deposits. They would no doubt be willing to offer the security of the buildings and machinery and thus free themselves from the disabilities associated with the hypothecation of stocks and stores but commercial banks obviously cannot grant loans on such a basis.

The difficulties in a time of depression in regard to obtaining finance are equally felt by dealers in piece-goods whose losses in a continuously falling market naturally affect their resources and credit. The losses of 1920-21, to which we have already referred, primarily fell on the importers of foreign piece-goods but some of these also deal in goods of Indian manufacture. At all times, the dealer in Indian piece-goods has greater difficulties in obtaining finance than the dealer in imported goods which are freely financed by the exchange banks, whereas the system of trade bills for local trade does not prevail to any large extent in India and difficulties arise in regard to the financing of Indian manufactured goods owing to the fact that the original invoices from the mills are seldom forthcoming in support of the valuation and, in the absence of a warehouse system, the merchants are not able to give the complete control over pledged goods which the banks demand. The transaction thus reduces itself more or less to one of trust, and this, in a time of depression, obviously increases the risk undertaken by the bank.

Difficulties in arranging finance both by mills and dealers in piece-goods must thus, we think, be held to have contributed to accentuate the present depression.

CHAPTER VII

EXAMINATION OF THE SUGGESTED CAUSES OF THE DEPRESSION

IV.—Other causes : causes special to Bombay

(*a*) *The export trade in yarn*

44. We now turn to causes of the present depression which may be considered special to Bombay. Of these, the one on which the Bombay millowners lay most stress is the loss of the export trade in yarn with China which they attribute, in the main, to the closing of the mints to the free coinage of silver in 1893 and the subsequent adoption of the 1*s*. 4*d*. ratio in 1898, though they admit that the industry afterwards overcame these difficulties to some extent as is evident from the volume of the exports to China during the following fifteen years. The importance to Bombay of the export trade in yarn with China will be clear from the following table :—

TABLE LV

Five yearly averages	Production of yarn			Exports of yarn by sea from India		Exports of yarn from Bombay	
	All India production of yarn in millions of lbs.	Bombay Presidency production of yarn in millions of lbs.	Bombay Island production of yarn in millions of lbs.	Total exports of yarn in millions of lbs.	Exports of yarn to China in millions of lbs.	Total exports of yarn from Bombay in millions of lbs.	Exports of yarn from Bombay to China in millions of lbs.
1874-75 to 1878-79	not available	not available	....	10·8	·9	10·8	8·9
1879-80 to 1883-84			....	35·8	30·1	34·3	28·9
1884-85 to 1888-89			....	95·7	79·6	92·0	76·8
1889-90 to 1893-94			....	159·1	141·7	148·4	129·4
1894-95 to 1898-99	457·6(a)	328·8(a)	....	191·8	180·9	172·8	162·8
1899-1900 to 1903-04	518·9	372·8	....	226·4	213·7	209·0	197·6
1904-05 to 1908-09	641·8	462·6	360·8	248·0	220·7	235·5	210·5
1909-10 to 1913-14	646·8	453·8	339·4	192·8	170·0	181·2	159·5
1914-15 to 1918-19	666·2	467·4	343·6	129·7	110·5	125·1	106·5
1919-20 to 1923-24	662·5	459·7	325·4	82·2	62·8	77·4	58·5
Year 1924-25	719·4	474·3	327·5	36·5	14·5	36·1	14·1
„ 1925-26	686·4	423·5	261·9	31·9	9·7	31·5	9·4

(a) Average of four years ending 1898-99.

The figures given above show that, throughout the years in which there was a large export of yarn from India, it was practically a monopoly of Bombay and that about nine-tenths of the yarn exported went to China. The figures show a very rapid expansion in exports from 1874-75 to 1892-93 when they were 176·8 million pounds. In 1893-94, they fell to 120·8 million pounds, a fall which the Bombay Millowners' Association attribute to the closing of the mints to the free coinage of silver in that year. That there were, however, other causes at work will be clear from the following extract from the Review of the Trade of India for that year. "This disturbance of exchange was not the sole, though it was the most important factor in the decline of trade. The export of yarn in 1892-93 had been so large that the China markets had been over-stocked and were dull and drooping. So difficult was it to carry on trade that, early in the year, proposals were made to work short time in the Bombay mills in order to effect a reduction in stocks and an increase in price and these proposals were carried into effect two months before the closure of the mints and were in operation on the date of that event..... The disturbance of exchange had, however, only a temporary effect on trade. By the end of November, all necessary adjustments had practically been made and trade had resumed its normal course continuing to keep that course ever since." Practically all the ground lost in 1893-94 had been recovered in 1895-96 and exports continued to expand, except for a check in 1900-01, a year of general depression in industry all the world over and of plague in Bombay, until they reached their highest point in 1905-06 when, of 297·6 million pounds exported, 282 million pounds went to China. Their subsequent course will be traced presently but we would pause here to comment briefly on the contention of the Bombay Millowners' Association that the currency changes of 1893 permanently affected the course of the yarn trade with China. It will, we think, be obvious that, so far as volume was concerned, they had no effect whatever except in the first year or two after they were made. The Millowners' Association hold, however, that the yarn trade with China after 1893 became "more or less speculative in nature and brought in very inadequate returns to the Bombay spinning industry." That speculation and inadequate returns were not special features of the years subsequent to 1893 will be evident from a perusal of the Review of Indian Trade for earlier years. The increase in exports both in 1878-79 and in 1879-80 was considered to be indicative not of healthy development in trade but rather of the existence of a crisis in which the disposal at any cost of accumulated stocks was essential. Similarly, in 1884-85, the large exports were reported to be due not "to a demand which was to be met but to the anxious desire of the millowners of Bombay to find any kind of way of disposing of stocks that had accumulated on their hands, profit or no profit."

There is ample evidence, notably that submitted to the Fowler Committee of 1898, which it is unnecessary for us to examine in detail, to show that prices in China adjusted themselves to the fall in the gold value of silver. A single extract will suffice. At the annual meeting

of the Bombay Millowners' Association in 1902, Mr. Cotton, the President, stated that "Illustrative of the fall in silver, I may mention that to-day the price of 20s Indian yarn is 92 taels against an average value for many years past of 63 taels. So the present offtake of Indian yarn at the high price to the Chinaman as expressed in taels is a source of gratification to merchants and spinners."

There were other and far more obvious causes than currency changes which account for the loss of the export trade in yarn with China as the following table shows :—

TABLE LVI

Year	Yarn exports to China including Hong Kong from Japan in millions of lbs.	Yarn exports to China including Hong Kong from India in millions of lbs.	Spindles in China
1893	·4	120·8	....
1894	4·4	145·2	....
1895	3·3	174·7	....
1896	15·6	186·1	....
1897	52·8	189·5	....
1898	87·0	209·0	....
1899	127·8	231·6	....
1900	74·4	108·6	550,000
1901	77·8	260·2	....
1902	73·8	232·4	....
1903	118·8	232·4	....
1904	95·2	236·3	....
1905	96·0	229·1	....
1906	99·8	282·0	....
1907	79·5	223·4	....
1908	56·3	160·3	....
1909	95·8	208·0	....
1910	127·8	200·3	....
1911	98·9	158·8	831,000
1912	133·3	129·3	833,112
1913	69·3	183·3	947,406
1914	208·4	178·0	1,000,000
1915	211·7	116·7	....
1916	196·2	140·0	1,029,218
1917	166·0	143·8	1,126,568
1918	177·7	102·2	....
1919	76·8	48·8	1,416,556
1920	90·0	126·6	1,585,300
1921	92·3	63·4	1,650,000
1922	118·5	62·0	1,888,348
1923	64·7	41·0	2,680,000
1924	63·2	20·7	3,300,000

These figures suggest that, although there was a tendency to a decline in the Indian export trade with China after 1906, the position remained somewhat indefinite until 1914 when a practically uninterrupted decline set in. In 1914, the position was still not unsatisfactory though the Japanese exports of yarn to China were 208 million pounds against 178 million pounds from India. The causes of the decline are evident from the table. They

are to be found in increasing competition from Japan, which has the advantage of proximity in addition to the advantages which make it such a formidable competitor in Indian markets, the expansion of the Chinese industry, difficulties in regard to freight during the war period and immediately afterwards, the preoccupation of the Bombay mill industry with the local market and, in the last two or three years, internal troubles in China. The number of spindles in China in the half year ending January 31st, 1925, was 3·41 millions against 5·44 in Japan and 8·5 millions in India, and most of these are working double shifts. The production of yarn in China in that year was 719·2 million pounds against a total Indian production in 1925-26 of 686·4 million pounds. The production of cloth was 120 million yards. The figures are, moreover, generally regarded as incomplete. In 1915, the output of yarn was estimated at from 200 to 250 million pounds and of cloth from 40 to 50 million yards. The Chinese production of yarn and cloth in 1925 therefore represents an increase of about 200 per cent. over that in 1915 and the effect of this increased production, more especially that of yarn, on imports will be obvious*. As regards the preoccupation of the Bombay mill industry with the local market to the detriment of the export trade, the Bombay Millowners' Association mention their efforts to secure additional freight space to China in 1917, but in respect of the subsequent period, the following extract from a report dated 31st July, 1918 on this point from the local branch of the P. and O. Company to the Managing Directors in England, which we have been permitted to quote, is illuminating :—

"During the last few months the demand for yarn space to China has become very slack, the principal reason being the greatly increased requirements of yarn for weaving in India now that the imports of piecegoods from Lancashire have been so very considerably curtailed. This had resulted in the sale of yarn in this country realising considerably higher prices than those offering in China.....We regret to say that there appears to be but little chance of normal conditions returning in the near future to the China yarn trade, most of the millowners preferring to make large profits locally than to keep in touch with the China market, although we have frequently pointed out the danger to their future trade incurred by neglecting their old customers in the Far East."

The effects of the internal troubles in China are very visible in the figures of 1923 and 1924 which show that imports both from Japan and India have been very seriously affected, the imports from Japan being 63·2 million pounds against 118·5 million pounds in 1922 and those from India 20·7 million pounds against 62 million pounds in 1922. The diminution in the Japanese exports of yarn to China have been compensated to some extent by an increasing export of piecegoods, the value of which in 1924 was 137·9 million yen against 34·7 million yen in 1916. In 1925-26, the exports from India to China were less than 10 million pounds which practically all went to Hong Kong.

*The figures are taken from Special Bulletin No. 488, issued from the Department of Commerce, Washington.

(b) The export trade in piecegoods

45. Whatever the causes of the loss of the export trade in yarn with China, there can be no doubt of its serious effects on the Bombay industry. Before considering these in detail, we shall examine the figures of export of cloth in order to ascertain how far the decrease in the exports of yarn has been compensated by increased exports of cloth. The table is as follows:—

TABLE LVII

Five yearly averages	Production			Exports	
	All India production in millions of yards	Bombay Presidency production in millions of yards	Bombay Island production in millions of yards	Exports from India by sea in millions of yards	Exports from Bombay in millions of yards
1874-75 to 1878-79 ..	Not available			17·0	10·5
1879-80 to 1883-84 ..				36·7	20·4
1884-85 to 1888-89 ..				58·5	45·1
1889-90 to 1893-94 ..				70·6	55·1
1894-95 to 1898-99 ..	323·0(*a*)(*b*)	270·9(*a*)(*b*)	....	75·2	56·0
1899-1900 to 1903-04	390·7	332·0(*b*)	....	71·4	45·5
1904-05 to 1908-09 ..	690·3(*b*)	575·6(*b*)	446·9	81·6	56·3
1909-10 to 1913-14 ..	1,105·5	909·0	590·4	90·2	64·4
1914-15 to 1918-19 ..	1,444·0	1,201·1	770·9	156·6	128·1
1919-20 to 1923-24 ..	1,675·9	1,379·1	869·5	164·0	130·0
Year 1924-25 ..	1,970·4	1,564·9	906·0	181·5	143·0
„ 1925-26 ..	1,954·5	1,510·4	871·8	164·8	120·3

(*a*) Average of three years ending 1898-99.
(*b*) Incomplete, as yardage of coloured cloth produced before 1906-07 is not available.

The figures of exports from 1912-13 onwards deserve examination in more detail. They are given in the table below in millions of yards:—

TABLE LVIII

—	Grey	Share of Bombay	Coloured and dyed	Share of Bombay	Share of Madras	Total exports	Share of Bombay
1912-13 ..	44·1	42·6	42·1	17·0	24·5	86·5	59·7
1913-14 ..	43·7	42·0	45·0	19·0	25·6	89·2	61·2
1914-15 ..	33·0	31·8	34·0	13·5	20·0	67·2	45·4
1915-16 ..	54·0	52·5	59·1	31·5	27·4	113·5	84·1
1916-17 ..	157·1	155·0	104·8	76·9	27·2	263·9	233·4
1917-18 ..	76·4	74·3	110·6	83·0	26·7	189·4	159·5
1918-19 ..	52·4	51·3	93·4	63·6	28·5	149·0	117·9
1919-20 ..	74·9	72·5	119·6	87·0	32·0	196·6	161·2
1920-21 ..	48·4	47·3	96·1	66·1	29·6	146·4	114·7
1921-22 ..	24·2	23·8	135·8	102·5	32·7	161·0	126·8
1922-23 ..	31·1	30·6	124·8	89·9	34·3	157·0	121·0
1923-24 ..	33·9	33·1	130·0	92·0	37·3	165·3	126·3
1924-25 ..	44·2	43·7	136·2	98·5	37·2	181·6	143·0
1925-26 ..	37·4	36·9	126·6	82·9	43·2	164·9	120·3
1926-27 eight months..	12·6	12·1	103·2	77·4	*	121·7	90·2

* Not ascertainable.

It will be seen that, until towards the close of the pre-war period, exports showed little advance over the figures for the period ending 1898-99. In the war years, there was a considerable increase in the exports both of grey and coloured goods but, since the close of the war, the former have receded below the pre-war level. The exports of coloured goods on the other hand, which expanded after the war to 135·8 million yards in 1921-22 have remained much about that figure. It should be mentioned here that by far the greater part of the exports of coloured goods from Madras, which form from one-fourth to one-third of the total exports under this head, consists of lungis and saris which are produced on handlooms.

The net result is that, though there has been an increase in the exports of coloured goods since the war, there has been no increase in exports sufficient appreciably to compensate for the loss of the China trade in yarn. We have, therefore, no hesitation in holding that the loss of that trade has very seriously contributed to the present depression in Bombay. Its effect on that centre will be evident from the following table :—

TABLE LIX

	Production of yarn in Bombay	Exports of yarn from Bombay	Yarn used for manufacture of cloth	Yarn placed on Indian market	Exports of piece-goods from Bombay
Average for five years ending		(Millions of pounds)			(Millions of yards)
1913-14	339	181	125	43	64
1918-19	344	125	162	56	124
1923-24	324	77	176	72	130
Year 1924-25	328	36	198	96	143
Year 1925-26	262	32	183	47	120

It will be seen that, whereas in the five years before the war, the exports of yarn from Bombay formed no less than 53 per cent. of the Bombay mill production, in the five years ending 1923-24 they were only 24 per cent. and, in 1924-25, they had fallen to 11 per cent. In other words, whereas in the five years ending with 1913-14, Bombay had, after allowance is made for the quantity of yarn placed on the Indian market, to find an outlet for an average of 115 million pounds of yarn annually, in the five years ending 1923-24 it had to find an outlet for an annual average of 175 million pounds and in 1924-25 for 196 million pounds. In 1924-25, therefore, it had to find an outlet for 81 million pounds of yarn more than in the pre-war quinquennium. This could only be done by converting it into cloth. The average production of cloth in Bombay in the pre-war quinquennium was 590 million yards. In 1924-25, which we take in preference to 1925-26 as the latter was a year in which there was a lengthy strike, it was 986 million yards, an increase of 396 million yards. The exports of cloth from Bombay, however, only increased from an average of 64 million yards in the pre-war period to 143 million yards in 1924-25. The balance

against Bombay may, therefore, be taken to be in the neighbourhood of 300 million yards of cloth, or about one-third of its total production. The position thus is that, since the war, owing to the loss of the China trade in yarn, Bombay has had to find an outlet in the home market for an additional three hundred million yards of cloth over the pre-war period and that at a time when upcountry mills have rapidly increased their production. The serious consequences of the loss of the China trade to the Bombay industry will thus be apparent. We now proceed to discuss the extent to which the difficulties which have resulted therefrom have been accentuated by the increasing competition of mills in other centres.

(c) *Internal competition*

46. In the review of the progress of the cotton mill industry in India which we have given in Chapters II and III, we have laid stress on the remarkable expansion of the mill industry outside Bombay in the last four years. The salient features of the tables there given are reproduced below for convenience of reference. For our present purpose it will be sufficient to give the figures of production only.

TABLE LX

		Mill production of yarn in millions of lbs.	Mill production of cloth in millions of yards
1908-09	Bombay	357	456
	Rest of India	300	369
	Total	657	825
	Percentage of Bombay to all India	54·3	55·2
1913-14	Bombay	355	592
	Rest of India	327	572
	Total	682	1,164
	Percentage of Bombay to all India	52·0	50·7
1918-19	Bombay	306	758
	Rest of India	309	693
	Total	615	1,451
	Percentage of Bombay to all India	49·7	52·2
1921-22	Bombay	349	922
	Rest of India	344	810
	Total	693	1,731·6
	Percentage of Bombay to all India	50·3	53·2

		Mill production of yarn in millions of lbs.	Mill production of cloth in millions of yards
1924-25	Bombay	327	986
	Rest of India	392	984
	Total	719	1,970
	Percentage of Bombay to all India	45·5	50·0
1925-26	Bombay	262	872
	Rest of India	424	1,083
	Total	686	1,955
	Percentage of Bombay to all India	38·2	44·6

These figures appear to us to be very striking indeed. They show that, since the end of the war, the upcountry mills have increased their production of yarn by 115 million pounds and of cloth by very nearly 400 million yards. At a time, therefore, when, as we explained in the preceding paragraph, owing to the loss of the China trade in yarn, the Bombay mills have had to find an outlet in the home market for the equivalent of an extra 300 million yards of cloth they have been faced with the competition of an additional 400 million yards of cloth manufactured in India. The effect of this increasing competition on the part of the upcountry mills will be obvious, more especially as it is direct competition since the upcountry mills manufacture goods which are mostly of the same qualities as those made in Bombay. The competition is less pronounced in coloured than in grey goods though in respect of this line also it is rapidly increasing, the production of coloured goods in upcountry centres in 1925-26 being double that in 1921-22 and over two-thirds of the Bombay production. The figures are given below :—

TABLE LXI

	1918-19		1919-20		1920-21		1921-22	
	Bombay	Rest of India	Bombay	Rest of India	Bombay	Rest of India	Bombay	Rest of India
				(Millions	of yards)			
Grey and bleached ..	472	605	518	646	504	626	585	700
Coloured ..	286	88	344	132	332	119	336	110

	1922-23		1923-24		1924-25		1925-26	
	Bombay	Rest of India	Bombay	Rest of India	Bombay	Rest of India	Bombay	Rest of India
				(Millions	of yards)			
Grey and bleached .	547	724	523	675	605	775	566	848
Coloured ..	322	131	333	170	380	208	306	234

We cannot but regard the increasing competition of the upcountry mills as one of the most important factors which have contributed to

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the present depression in Bombay. An examination of the relative advantages of the mills in Bombay and those in upcountry centres is best deferred until the costs of production in the various centres, so far as we have been able to ascertain them, have been examined.

(d) Lack of sufficient attention to upcountry markets

47. It was contended in evidence before us by many witnesses, especially those in upcountry centres that one of the reasons for the depression in Bombay was the lack of attention paid by the Bombay mill industry to the tastes and requirements of the upcountry consumer. Put in another way, the argument was that the Bombay mills are content to go on producing the same counts of yarn and the same varieties of cloth, without regard to whether these find a ready market or not. In these circumstances, an analysis of the production of the Bombay, Ahmedabad and other upcountry mills becomes of importance. The figures for yarn are given in the following table :—

TABLE LXII

	1921-22		1924-25		1925-26		1926-27 six months	
	Millions of lbs.	Per cent. of total production	Millions of lbs.	Per cent. of total production	Millions of lbs.	Per cent. of total production	Millions of lbs.	Per cent. of total production
Bombay								
1s to 10s	71·2	20·4	61·2	18·7	57·0	21·7	37·3	21·3
11s to 20s	175·5	50·3	156·1	47·7	117·0	44·6	75·9	43·3
21s to 30s	94·8	27·2	99·0	30·2	79·1	30·2	54·7	31·2
31s to 40s	6·0	1·7	8·0	2·4	5·9	2·3	4·7	2·7
Above 40s	·9	·3	3·2	1·0	2·5	1·0	2·0	1·2
Waste	·2	·1	·1	..	·5	·2	·6	·3
	348·6	100·0	327·6	100·0	262·0	100·0	175·2	100·0
Ahmedabad								
1s to 10s	2·4	2·8	2·4	2·6	3·0	3·0	1·2	2·2
11s to 20s	31·7	37·0	37·3	40·5	44·8	43·6	20·0	38·0
21s to 30s	45·1	52·7	45·8	49·8	47·0	45·8	24·7	47·0
31s to 40s	5·6	6·5	4·9	5·3	5·8	5·6	4·3	8·2
Above 40s	·7	·9	1·6	1·8	2·1	2·0	2·4	4·6
Waste	·1	·1	..	..	..	..	..	..
	85·6	100·0	92·0	100·0	102·7	100·0	52·6	100·0
All India								
1s to 10s	98·0	14·2	92·8	12·9	95·7	14·0	56·2	14·1
11s to 20s	371·3	53·6	377·0	52·4	349·0	50·9	193·7	48·8
21s to 30s	203·2	29·4	228·8	31·1	213·8	31·2	127·1	32·0
31s to 40s	16·9	2·4	19·4	2·7	19·7	2·9	14·0	3·5
Above 40s	2·4	·3	5·8	·8	5·8	·8	5·4	1·4
Waste ..	·5	·1	·6	·1	1·5	·2	·8	·2
	692·3	100·0	719·4	100·0	685·5	100·0	397·2	100·0

While the tendency all the world over is for a progressive cotton mill industry to spin higher counts, a tendency which has been specially marked in Japan, this table shows that the progress in this direction in India during the last five years has been so small as to be almost negligible, though in the first six months of the current year there were signs of some development in this direction. In 1921-22, the average count spun in the Bombay mills was 16·31. In 1925-26, it had risen to 16·87. In Ahmedabad, however, it had fallen from 22·95 in 1921-22 to 21·40 in 1925-26. In spite of this retrogression, Ahmedabad is still well ahead both of Bombay and the rest of India as regards the average count spun and this superiority is very marked in counts of 31s to 40s, the total amount of which in Ahmedabad, in 1925-26, was practically equal to the Bombay production although the total Ahmedabad production was only two-fifths of that of Bombay.

The figures of production of yarn and cloth in Bombay an Ahmedabad are of interest in this connexion. They are :—

TABLE LXIII

	1923-24 Millions of lbs.	1924-25 Millions of lbs.	1925-26 Millions of lbs.
Bombay			
Yarn	269·6	327·5	262·0
Cloth	194·2	220·3	199·7
Percentage of cloth to yarn	72·03	67·28	76·21
Ahmedabad			
Yarn	75·6	92·0	102·7
Cloth	79·5	93·7	105·7
Percentage of cloth to yarn	105·12	101·82	102·83

The fact that the percentage of cloth to yarn in Ahmedabad exceeds 100 is due to two reasons, the comparatively high percentage of heavily sized cloth turned out in that centre, though there has been a distinct change in this respect in recent years, and the existence of a number of small weaving mills which work almost entirely on imported yarn. Even allowing for these two factors, the figures show that a much larger proportion of the Bombay production of yarn, especially of the coarser counts, is placed on the market than it is in Ahmedabad. This obviously tends to weaken the position of Bombay mills in view of the even greater depression in the yarn than in the cloth market.

It will be seen, from the first table given above, that the percentage of yarn under 30s produced in Bombay is practically the same as it is for all India and that, in yarn under 20s, it is somewhat higher. The only inference which can be drawn from this fact is that Bombay, in spite

of the advantages it possesses in a greater humidity of climate and in labour which it claims to be more efficient, has been content to continue spinning the counts in which it meets the greatest competition from mills in upcountry centres. The figures for the first six months of 1926-27 show a slight upward tendency, the output of yarn of counts 31s to 40s being 4·7 million pounds against 3·6 million pounds for the corresponding period of 1925-26 and 4·2 million pounds for that of 1924-25. The corresponding figures for yarn over 40s are 2, 1·5 and 1·4 million pounds respectively. In Ahmedabad, in the first six months of 1926-27, the production of counts 31s to 40s was twice as much and that of counts above 40s more than three times as much as for the corresponding period of 1925-26. We cannot but think that, in this adherence to the coarser counts, as compared with Ahmedabad, is to be found one reason why conditions in Bombay during the last four years have been so much less favourable than they have been in Ahmedabad.

We next turn to an examination of the piecegoods produced by the various centres. We are very greatly hampered in this respect owing to the lack of statistical material. As we have already mentioned, while the piecegoods which enter India are classified in the Annual Statement of Sea-borne Trade under over a hundred different heads, they are classified in the Monthly Statistics of Cotton Spinning and Weaving in Indian Mills under eleven heads only. An even more serious defect is that grey and bleached goods are lumped together in the latter. The figures are as shown below :—

TABLE LXIV

	1921-22		1924-25		1925-26	
	Millions of yards	Percentage of total production	Millions of yards	Percentage of total production	Millions of yards	Percentage of total production
BOMBAY						
Grey and bleached						
Chadars	28·2	3·1	25·7	2·6	26·8	3·1
Dhotis	121·8	13·2	111·0	11·3	115·4	13·2
Drills and jeans	35·5	3·9	49·9	5·1	38·4	4·4
Cambrics and lawns ..	4·5	·5	2·4	·2	1·5	·1
Printers	1·5	·2	·2	..	1·0	..
Shirtings and long cloth ..	311·6	33·8	326·5	33·1	306·8	35·2
T. Cloth, domestics and sheetings	53·7	5·7	45·0	4·6	36·2	4·2
Tent cloth	2·5	·3	2·3	·3	2 -	·3
Khadi	..	..	30·6	3·1	27·5	3·2
Other sorts	26·6	2·9	11·5	1·1	10·3	1·2
Total grey and bleached ..	585·9	63·6	605·1	61·4	566·1	64·9

	1921-22		1924-25		1925-26	
	Millions of yards	Percentage of total production	Millions of yards	Percentage of total production	Millions of yards	Percentage of total production
BOMBAY—*contd.*						
Coloured						
Chadars	Not available.	Not available.	21·9	2·2	20·5	2·4
Lungis and dhotis			17·2	1·8	16·2	1·9
Drills and jeans			77·2	7·8	63·6	7·3
Greys, dyed			14·8	1·5	12·8	1·4
Coloured striped saris and susis ..			171·9	17·4	130·6	15·0
Cotton tweeds and checks ..			65·9	6·7	53·9	6·2
Other sorts			12·0	1·2	8·2	·9
Total, coloured goods ..	336·0	36·4	380·9	38·6	305·8	35·1
Total ..	921·9	100·0	986·0	100·0	871·9	100·0
AHMEDABAD						
Grey and bleached						
Chadars	15·3	3·8	16·3	3·6	15·7	3·2
Dhotis	212·7	53·3	189·6	42·5	221·3	44·4
Drills and jeans	1·4	·4	1·1	·2	2·8	·6
Cambrics and lawns ..	1·2	·3	·9	·2	1·1	·2
Printers	14·7	3·7	11·7	2·6	7·8	1·6
Shirtings and longcloth ..	102·3	25·6	108·3	24·3	104·9	21·0
T. cloth, domestics and sheetings	12·7	3·2	12·0	2·7	16·1	3·2
Tent cloth	·1	..	3·0	·7	1·4	·3
Khadi	..	..	10·1	2·2	3 0	·6
Others	11·6	2·9	12·3	2·8	13·1	2·6
Total, grey and bleached ..	372·0	93·2	365·3	81·8	387·2	77·7
Coloured						
Chadars	Not available.	Not available.	·1	·0	·1	·0
Lungis and dhotis			3·2	·8	3·9	·9
Drills and jeans			·8	·2	·7	·1
Greys, dyed			·6	·1	1·0	·2
Coloured striped saris and susis ..			72·5	16·2	99·5	19·9
Cotton tweeds and checks ..			2·2	·5	3·8	·8
Other sorts			1·6	·4	2·0	·4
Total, coloured goods ..	27·0	6·8	81·0	18·2	111·0	22·3
Total ..	399·0	100·0	446·3	100·0	498·2	100·0

—	1921-22		1924-25		1925-26	
	Millions of yards	Percentage of total production	Millions of yards	Percentage of total production	Millions of yards	Percentage of total production
ALL INDIA						
Grey and bleached						
Chadars	59·4	3·4	61·6	3·1	62·1	3·2
Dhotis	455·6	26·3	458·4	23·3	516·4	26·4
Drills and jeans	60·5	3·5	77·2	3·9	74·1	3·8
Cambrics and lawns ..	7·4	·4	5·4	·3	3·2	·2
Printers	35·6	2·1	32·8	1·7	25·9	1·3
Shirtings and longcloth ..	487·0	28·1	525·5	26·7	521·1	26·7
T. cloth, domestics and sheetings	84·1	4·9	77·7	3·9	74·1	3·8
Tent cloth	7·3	·4	9·9	·5	9·0	·5
Khadi	..	..	87·	4·4	87·4	4·4
Other sorts	87·9	5·1	46·7	2·4	41·0	2·1
Total, grey and bleached goods ..	1,284·8	74·2	1,382 3	70·2	1,414·3	72·4
Coloured						
Chadars	Not available.	Not available.	24·7	1·3	23·4	1·2
Lungis and dhotis			23·8	1·2	24·0	1·2
Drills and jeans			98·9	5·0	88·1	4·6
Greys, dyed			36·2	1·8	27·6	1·4
Coloured striped saris and susis ..			283·8	14·4	268·2	13·8
Cotton tweeds and checks ..			97·6	5·0	87·3	4·5
Other sorts			21·1	1·1	16·8	·9
Total, coloured goods ..	446·8	25·8	588·0*	29·8	540·2*	27·6
Total ..	1,731·6	100·0	1,970·3	100·0	1,954·5	100·0

* Incomplete, as returns from certain Indian States are not traceable.

The outstanding feature of the above table is the small extent to which Bombay participates in the trade in dhotis. In 1925-26, the total output of dhotis in Bombay was very little more than half the output of Ahmedabad and only about 22 per cent. of the total Indian production. We have been informed that one reason for this is that in the Bombay mills the proportion of wide looms suitable for the 44 inches wide dhotis, which are the staple for the very large Bengal market, is small. Another feature which is brought out by the table is the large proportion that the output of shirtings and longcloth bears to the total production of the Bombay mills. In 1925-26, it was 54 per cent. of the total production of grey and bleached goods against 27 per cent. for Ahmedabad and 37 per cent. for all India. It will further be seen that, although the production of coloured goods is still small in Ahmedabad as compared with Bombay, there has been a very marked advance in that centre in the last four years, the total production of coloured goods being more than four times as great in 1925-26 as it was in 1921-22, whereas the Bombay

production, when allowance is made for years during which strikes have occurred, has remained practically constant.

It has not been easy to arrive at a definite conclusion regarding the proportion of bleached goods produced in either Bombay or Ahmedabad since, as we have mentioned above, bleached and grey goods are lumped together in the published statistics. The figures we obtained from the Customs Department which has taken over from the Cotton Excise Department the collection of statistics under the Cotton Statistics Act of 1926, proved entirely unreliable as they include only bleached goods issued as such from the mill premises and do not include goods bleached in separate bleach houses outside the mill premises. In 1925, for example, the figures supplied by the Customs Department, show only 890,070 pounds of cloth, the equivalent of about 4·3 million yards, as bleached by the Bombay mills, whereas the figures collected for us by the Millowners' Association show a total of 67·6 million yards. This represents less than an eighth of the total production of grey goods in Bombay and there has been a considerable fall since 1923 when the total was 84·2 million yards. Similar figures which we have obtained from Ahmedabad and which cover 32 mills show that the production of bleached goods represents 39 per cent. of the total production of grey and bleached goods in those mills and that, in no less than 11 mills, it represents over 60 per cent. of the total production. The figures are 2·43 million pounds of bleached goods against 4·09 million pounds of grey goods. The difference between Bombay and Ahmedabad in this respect is thus very striking indeed and there can be no doubt that Ahmedabad, aided by its lower charges for bleaching which, in the main, is done by *dhobies*, a much less expensive process than bleaching done by machinery, has profited greatly by the very marked advance it has made in the output of bleached goods.

It was not only in respect of the greater diversification of production but also of the methods of disposing of it that comparisons were drawn in evidence before us between those adopted in Bombay and Ahmedabad to the disadvantage of the former. The quality of the production naturally varies with the mill but the evidence we received in regard to this went to show that the quality of the Bombay production was, on the whole, regarded in the upcountry centres we visited as superior to that of Ahmedabad. This appeared to be due to the fact that Ahmedabad formerly specialised in cheap cloth which was very heavily sized and that this is still the main line of production of some mills in that centre. Our inspection of the mills in Bombay and Ahmedabad showed that there was little to choose in the matter of quality between the productions of the best mills. On the other hand, we were told that the Ahmedabad millowners were far more ready to meet the wishes of possible customers in regard to such matters as the acceptance of small orders, the manufacture of counter-samples in small quantities, packing of different varieties in a bale, and stamping the stamp, name and number of the merchant purchasing the cloth than were the majority of the Bombay millowners. The smaller size of the Ahmedabad mills makes it an easier matter to do this. The representatives of the

Bombay Millowners' Association claimed that their commission agents keep them in close touch with the requirements of upcountry markets, but this was hardly borne out by our enquiries in the consuming centres we visited. In Madras, for example, we were told that Ahmedabad had made marked progress during the last four years and that representatives of the Ahmedabad mills paid frequent visits to find out what was wanted, whereas the market had been neglected by Bombay on account of its comparative smallness. We have referred to the neglect by Bombay of the Bengal dhoti market and our visits to Delhi and Amritsar gave us reason to doubt whether the Bombay millowners had sufficiently exploited the possibilities of the large market for bleached and coloured goods in the Punjab. We cannot but think that greater attention to diversification of production, more direct contact with the upcountry consuming centres and greater alertness on the part of commission agents would have mitigated to some extent the severity of the depression in Bombay.

(*e*) "*Overproduction*"

48. Closely connected with the question of diversification of production is that of "overproduction." The Bombay Millowners' Association consider that the fact that the total amount of foreign and Indian piecegoods available for consumption is still below the pre-war level is convincing evidence that there has been no "overproduction," since, in 1913-14, the net imports of foreign piecegoods were 3,042 million yards against the Indian mill production of 1,164 million yards, a total of 4,206 million yards, whereas, in 1925-26, the corresponding figures were 1,529* and 1,954 million yards, a total of 3,483 million yards. We have shown that the proportion of imported cloth made from counts below 30s is very small, whilst it is obvious from the figures of the counts of yarn spun in the Indian mills that the proportion of cloth made from counts above 30s is equally small. There is no reason to believe that matters have changed very greatly in this respect since the pre-war period and, this being so, it follows that there has been a distinct change in recent years in the character of Indian consumption and that the finer imported goods have been replaced to a large extent by coarser goods of Indian manufacture. While the figures of imports and mill production do not establish that there has been "overproduction" by the Indian mill industry, they thus bring out the fact that there has been some change in the character of the consumption. The depression in India differs from that in Lancashire in that it has not been accompanied by any decrease in production as the following figures of Indian mill production will show:—

	Yarn, millions of lbs.	Cloth, millions of yards
1922-23	706	1,725
1923-24	617	1,702
1924-25	719	1,970
1925-26	686	1,954

* These are gross imports less re-exports by sea as figures for re-exports by land are not available.

The advance would have been even larger but for the strikes in Bombay in 1924 and 1925. It was urged before us by some witnesses that one remedy for the depression lay in short-time working and that the Bombay millowners would have done well to follow the example of Lancashire in this respect. The policy of short-time working in Lancashire has been very vigorously criticised of late but, in any case, it must be remembered that conditions in India are entirely different from those in Lancashire. We have shown that the depression is much less acute in upcountry centres than it is in Bombay and, in fact, can hardly be said to exist at all in some of them. No case for working short time in upcountry centres can be established, and in these circumstances, it does not appear to us that the Bombay mills can justly be criticised for not adopting a policy which would only have accentuated the competition of the upcountry mills. Economies could, however, have been effected if the policy which has recently been adopted, namely that of closing down looms engaged on cloth of widths for which at present there is no demand had been adopted at an earlier stage. The figures for October 1926 show that 8·7 per cent. of the looms were then idle.

(*f*) *High costs of labour in Bombay*

49. The Bombay Millowners' Association have laid great stress on high labour costs as a factor contributing to the present depression. The history of wages in the Bombay mill industry has been briefly given in Chapter II. As there stated, no systematic action in regard to increase or reduction of wages was taken by the Bombay Millowners' Association as a body until July 1917 when an increase over the individual rates for each mill as shown in its "standard muster" was given. It should be explained that the "standard muster" is the muster roll maintained by each mill showing the number of operatives allowed for each department and for each machine. It further shows the monthly rate for operatives on fixed wages and the rate per unit for those on piece-work. The average wages given in the table below for piece-workers that is frame tenters, winders and weavers are thus the average wages earned on the basis of the piece-work scale as shown in the standard muster. A war bonus of 10 per cent. was granted in July 1917, and was raised to 15 per cent. in January 1918. This was increased to 35 per cent. with effect from January 20th, 1919, and termed a special allowance on account of the high prices of food-stuffs. This increase was given after a general strike which commenced at the beginning of January. The allowance was further increased to 55 per cent. on January 24th, 1920, for operatives on fixed wages and for winders, the allowance for piece-workers other than winders being raised to 75 per cent., again after a general strike which had commenced at the beginning of January. It was again raised to 70 per cent. on November 30th, 1920, for operatives on fixed wages and for winders and to 80 per cent. for piece-workers other than winders. Since then there has been no change in wages in the Bombay industry except that the yearly bonus of one month's wages, which was paid during the boom period, was discontinued at the beginning of 1924, a discontinuance which led to the unsuccessful strike

in January of that year. An attempt to reduce wages by 11½ per cent. in September 1925 was followed by a strike of 2½ months' duration which was terminated by the millowners agreeing, on the removal of the excise duty, to retain wages at their old level. Wages in Ahmedabad have not followed such a uniform course as they have in Bombay and the changes in that centre are best shown by the reproduction of the table supplied by the Ahmedabad Millowners' Association for a mill in that centre.

TABLE LXV

Department	Standard Muster 1st April 1913	Standard Muster 1st January 1918	Standard Muster 1st January 1919	Standard Muster 1st February 1920
	Rs. a.	Rs. a.	Rs. a.	Rs. a.
Blow-room tenters..	11 8	13 8	14 8	18 0
Card-room ,, ...	12 0	13 8	15 8	17 8
Frame ,, ...	13 8	22 4	22 4	27 4
Ring frame side boys ..	10 0	14 0	15 0	20 0
Winders	....	9 14	12 13	15 3
Weavers	....	25 0	28 9	26 13
Folders	10 0	10 0	13 0	24 6

Department	Standard Muster 1st November 1920	Standard Muster 1st May 1921	Standard Muster 1st April 1923	Standard Muster 1st April 1926
	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
Blow-room tenters ..	19 0 0	25 12 0	27 12 0	23 10 0
Card-room ,, ...	19 8 0	26 6 0	28 6 0	24 7 6
Frame ,, ...	27 4 0	30 0 0	32 0 0	29 6 0
Ring frame side boys ..	28 8 0	28 8 0	31 12 0	26 7 6
Winders	14 7 0	22 12 0	23 8 0	23 1 0
Weavers	26 13 0	39 6 3	39 8 0	47 15 0*
Folders	30 7 6	30 7 6	30 7 6	25 11 3

* It will be noticed that this figure is considerably higher than the corresponding figure for 1923, although a cut of 15½ per cent. was made in June 1923. The explanation for this is that, in 1926, the mill was producing finer qualities of cloth and a larger quantity of fancy goods than in 1923.

Wages were reduced by 15½ per cent. in Ahmedabad in June 1923 in spite of a strike of some ten weeks' duration.

It is important to note that the hours of labour were reduced from 12 to 10 in 1920 and it is, therefore, contended that, though the rise in rates in Bombay since the pre-war period has been between 70 and 80 per cent., the reduction of hours has rendered it, in effect, more than 100 per cent. It has been sought to prove that the wages in the Bombay mill industry are, in present conditions, an unduly heavy burden on the industry in

various ways, by a comparison with wages paid in the mill industry in Bombay in 1914, by a comparison with the wages paid in that industry in other centres, by a comparison with the wages paid in other occupations in Bombay, in the Bombay Presidency and elsewhere and by a comparison with the cost of living. Much light is thrown on the first two methods of comparison by a study of the results of the enquiries into the wages and hours of labour in the cotton mill industry which were conducted by the Bombay Labour Office in May 1921 and August 1923 respectively. A similar enquiry is at present in progress and it is a matter of great regret to us that the results of this are not yet available as they would have been of the greatest assistance to us in this part of our enquiry, more especially as there is every reason to believe that the Labour Office, profiting by the experience gained in previous enquiries, has been able to collect more satisfactory data than it did then. The figures of average monthly earnings per head in 1914, 1921 and 1923 for Bombay, Ahmedabad and other centres in the Bombay Presidency are given in the table below. As there has been no change in wages in Bombay, Ahmedabad or, so far as we are aware in other centres since 1923, the figures for that year should represent a close approximation to the present earnings.

TABLE LXVI

Centre	Monthly earnings per head in			Percentage increase over 1914
	May 1914	May 1921	August 1923	
	Rs. a. p.	Rs. a. p.	Rs. a. p.	
Bombay City .. Men	18 6 8	34 15 2	35 10 7	
Women ..	10 0 10	17 6 6	17 5 5	
Big lads and children (a)	9 6 7	18 0 10	17 14 0	
All workpeople (a) ..	16 6 3	30 10 0	30 10 1	86·9
Ahmedabad .. Men	15 7 1	34 2 11	33 0 9	
Women ..	9 15 11	19 9 4	18 2 7	
Big lads and children (a) ..	7 2 3	18 6 6	17 3 11	
All workpeople (a) ..	13 9 9	30 2 11	29 7 0	116·3
Sholapur .. Men	14 3 11	25 13 9	22 3 10	
Women ..	5 13 11	10 15 9	8 9 7	
Big lads and children (a)	6 9 6	14 12 0	12 7 11	
All workpeople (a) ..	10 9 4	20 9 4	17 10 6	66·8

(a) Counting two half-timers as one full timer.

Centre		Monthly earnings per head in May 1914	Monthly earnings per head in May 1921	Monthly earnings per head in August 1923	Percentage increase over 1914
		Rs. a. p.	Rs. a. p.	Rs. a. p.	
Baroda State	Men	13 8 7	28 12 4	24 0 1	
	Women	6 13 4	16 6 11	14 14 11	
	Big lads and children (a)	7 3 8	14 7 4	11 7 3	
	All workpeople (a)	11 14 1	25 1 10	22 0 8	85·5
Other centres	Men	13 8 7	28 12 4	24 7 4	
	Women	6 13 4	16 6 11	11 14 7	
	Big lads and children (a)	7 3 8	14 7 4	12 8 8	
	All workpeople (a)	11 14 1	25 1 10	21 6 5	80·1
Bombay Presidency	Men	17 0 8	33 6 10	33 1 10	
	Women	9 0 1	18 9 1	16 3 10	
	Big lads and children (a)	7 13 4	17 3 7	16 9 6	
	All workpeople (a)	14 11 11	28 14 4	28 9 1	93·7

(a) Counting two half-timers as one full timer.

The above figures can, however, be accepted only with considerable reservations. The Labour Office points out that the 1914 figures have to be regarded with considerable caution and can be treated only as approximations. The methods adopted in the enquiries of 1921 and 1923 were not the same and it would seem, from the evidence of the Director of Labour, that the method adopted in 1921 tended to give a somewhat lower average rate of wages than that followed in 1923. Again only 39 returns were received from Ahmedabad in 1921 and it is probably for this reason that the average daily earnings for Ahmedabad in 1923 for all work-people were returned as Re. 1-3-10 against Re. 1-2-7 in 1921 and the average monthly earnings at Rs. 29-7-0 against Rs. 30-2-11 in spite of the cut of 15½ per cent. which was made in June of that year. Another point to be remembered is that, in Ahmedabad, a system known as the "hapta" system is in force under which wages are paid by the "hapta" which in the majority of cases consists of 16 days but is sometimes of 14 days only. The monthly earnings for Ahmedabad are, therefore, calculated for the number of days worked during two "haptas" which would sometimes be one day more than the number of days worked in a calender month. A calculation on this basis would make the average monthly earnings in Ahmedabad somewhat higher than they really are. A study of the cost of production statements for the two centres also goes to show that the disadvantage Bombay has in the matter of labour costs, as compared with Ahmedabad, is more marked than would appear from

the table which also shows that both centres are at a distinct disadvantage as compared with other upcountry centres in the Bombay Presidency. It further brings out that Bombay is the only centre where no reduction of wages has been made since 1921. Figures similar to those collected by the Bombay Labour Office are not available for centres outside the Bombay Presidency and the only comparison which can be made is therefore between the wages paid in particular mills. These are given in the table below. The figures are for a representative mill in each case :—

TABLE LXVII

Standard muster April 1st, 1926	Bombay	Ahmedabad	Cawnpore	Delhi	Nagpur	Madras
	Rs. a.	Rs. a. p.	Rs. a. p.	Rs. a.	Rs. a.	Rs. a. p.
Blow room tenters ..	29 0	23 10 0	16 14 6	19 0	24 0	25 14 6
Card room tenters ..	27 4	24 7 6	23 12 0	14 0	24 0	23 3 3
Frame tenters ..	37 12	29 6 0	27 3 0	25 0	30 12	25 2 0
Ring frame side boys ..	29 12	26 7 6	15 10 0	20 0	24 0	14 10 8 (a) 17 15 0 (b)
Winders	21 4	23 1 0	27 13 0	25 0	18 8	21 8 0
Weavers	47 12	47 15 9	32 7 0	35 0	41 0	34 7 0*
Folders	29 0	25 11 3	14 6 0	20 0	24 0	26 3 5

The statement of costs of manufacture, submitted by the Bombay Millowners' Association in their original representation, shows that the cost of labour formed 37·8 per cent. of the total cost of manufacture in 1914, excluding the cost of the raw material, against 40 per cent. in 1924. If the excise duty is omitted in both cases, the figures are 41 per cent. and 44·4 per cent. respectively. Worked out on the basis of the cost per spindle per day, the percentage of labour to total costs for a mill in Bombay, for which we have obtained returns for both 1914 and 1926, was 35·8 in 1914 against 48·7 in 1926 and per loom per day 40 per cent. against 41·9 per cent. We mention these figures here to show how large a part of the total cost of manufacture is represented by labour costs.

It is impossible to draw any satisfactory comparison between the wages paid in the cotton mill industry and those in other occupations and all that need be said in regard to this is that the figures supplied by the Bombay Labour Office to the Royal Commission on Indian Currency and Finance showed that the wages in 1925 of all skilled labour in urban areas in the Bombay Presidency had risen since 1914 by a considerably higher percentage than they had in the cotton mill industry.

(a) For minding 180 spindles.

(b) For minding 240 spindles.

* This is for ordinary single loom weavers. Weavers on Northrop looms receive from 42 to 48 rupees for attending six looms.

The comparison with the cost of living index number for Bombay City gives the following results :—

TABLE LXVIII

——	May 1914	May 1921	August 1923	October 1926
Wages	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
Average monthly wages of all operatives	16 6 3	30 10 0 (exclusive of bonus.) 32 10 0 (inclusive of bonus.)	30 10 1	30 10 1 (assumed.)
Index numbers				
Nominal wages ..	100	187 (without bonus.) 199 (with bonus)	187	187
Cost of living	100	167	154	155
Real wages	100	112	121	121

Two points have to be borne in mind in considering this table. The first is that the cost of living index number for Bombay has admittedly not been compiled on an altogether satisfactory basis and we were informed that several methods of reconstructing it are under the consideration of the Government of Bombay. The second is that the Report of the Committee on Prices in 1912 shows that there is reason to believe that wages in the cotton mill industry in Bombay, in the period immediately preceding the war, had not adjusted themselves to the general rise in prices throughout the country, so that the increase in wages, which has occurred since then, must be discounted to that extent. We need hardly point out the objections to taking the cost of living index number as the factor determining the level of wages, as this would result in a stereotyped standard of comfort of the wage earner for all time.

Another method of comparison, which is perhaps as satisfactory as any of those given above, is that between wages and the prices of yarn, cloth and cotton. If the figures for 1910 are taken as the base, this works out as follows :—

TABLE LXIX

——	1910	1913	February 1920	November 1920	1921	1923	1924	1925	1926 October
Wages									
Spinners	100	115	208	229	229	229	229	229	229
Weavers	100	100	189	194	217	217	217	217	217
Price of yarn ..	100	*	333	274	217	200	223	169	128
Price of cloth ..	100	*	293	291	264	214	228	183	158
Price of cotton ..	100	98	151	151	112	168	184	142	90

*Not available.

This table brings out clearly a normal feature of the trade cycle, which is that wages have lagged behind prices throughout, both when the latter were rising and when they were falling. It further brings out a point, emphasised at an earlier stage of our report, which is that in

1923 and 1924 it was the high price of cotton which constituted the great burden on the industry. Had the price of cotton in those years remained at the level of 1921, the effect of the higher wages would not have been so severely felt. Since the beginning of 1925, until the last two or three months, the price of cotton has fallen less rapidly than that of yarn and cloth and, in these circumstances, the higher wages have been an increasing burden.

The burden of high wages in a period of falling prices is felt until matters adjust themselves either by a reduction in wages or by an increased output. There has been no adjustment in Bombay, except for the abolition of the annual bonus, as there has been in other centres and to that extent the maintenance of wages at the level of the boom period must be held to have added to the difficulties manufacturers had to face in a period of depression. The higher wages in Bombay cannot therefore be said to have caused the present depression, though they have undoubtedly accentuated it. Some light will be thrown on the extent to which Bombay is at a disadvantage in this respect, as compared with Ahmedabad and upcountry centres, in the following chapter.

The figures of wages in Japan are of interest in this connexion. They are shown below :—

TABLE LXX

Period	Spinning. Average daily wages in yen			Weaving. Average daily wages in yen		
	Male	Female	Per operative	Male	Female	Per operative
1916, 1st half	·496	·332	·363	·532	·404	·421
2nd „	·504	·336	·370	·535	·409	·427
1917, 1st „	·518	·350	·384	·554	·424	·443
2nd „	·573	·392	·430	·61	·465	·488
1918, 1st „	·625	·433	·474	·668	·491	·518
2nd „	·747	·519	·570	·774	·570	·603
1919, 1st „	·893	·662	·715	·919	·706	·740
2nd „	1·339	1·079	1·140	1·347	1·072	1·122
1920, 1st „	1·619	1·261	1·345	1·628	1·238	1·304
2nd „	1·514	1·131	1·222	1·516	1·110	1·180
1921, 1st „	1·440	1·093	1·179	1·459	1·110	1·178
2nd „	1·486	1·175	1·252	1·524	1·181	1·241
1922, 1st „	1·551	1·251	1·321	1·559	1·236	1·291
2nd „	1·537	1·234	1·306	1·554	1·218	1·276
1923, 1st „	1·485	1·179	1·251	1·489	1·157	1·211
2nd „	1·481	1·181	1·254	1·479	1·185	1·234
1924, 1st „	1·518	1·210	1·283	1·509	1·178	1·231
2nd „	1·530	1·202	1·278	1·540	1·169	1·228
1925, 1st „	1·541	1·226	1·297	1·569	1·217	1·272
2nd „	1·554	1·221	1·297	1·578	1·227	1·283

It will be seen that the increase of wages in the Japanese cotton mill industry in the last ten years has been very much more marked than in India. While the average wages in Bombay have increased by 96 per cent. since 1914, those in Japan have increased by 59 per cent. for spinners and 205 per cent. for weavers since 1916.

(*g*) *High local taxation*

50. One of the minor causes mentioned to us as contributing to the depression in Bombay was the high local taxation, including the charges for water. Objection was taken more especially to the town duty of one rupee per bale on all cotton entering Bombay and to the charge for water. The former is levied under the City of Bombay Municipal and Improvement (Amendment) Act of 1920 which was enacted with the primary object of enabling the Government to construct 50,000 tenements for the working classes in the Town and Island of Bombay. The charge for water supplied to cotton mills and certain other classes of consumers in Bombay was raised from $7\frac{3}{4}$ annas per 1,000 gallons to 12 annas per 1,000 gallons in 1922-23 and again in 1925-26 to 16 annas per 1,000 gallons. Local taxation and water charges form a small, but by no means negligible, element in the costs of production. Our examination of the detailed costs of production statements in the next chapter will show that Bombay is at a marked disadvantage, as compared with Ahmedabad and other upcountry centres, in respect both of rates and taxes and of water charges and, to the extent of this disadvantage, the higher local taxation must be held to have added to the difficulties caused by the depression in Bombay.

CHAPTER VIII

COSTS OF PRODUCTION

Examination of costs of production

51. A study of the details of the costs of production of yarn and cloth in India, Japan and the United Kingdom would, it need hardly be said, throw considerable light on the problems with which we are faced, but, for obvious reasons, it has not been possible for us to obtain figures of costs of production for Japan and the United Kingdom. In his recent book on "Making the Tariff in the United States," Mr. T. W. Page, formerly Chairman of the United States Tariff Commission, points out that the difficulties in obtaining and verifying costs of production in foreign countries are infinitely greater than those encountered in the United States and concludes that, with rare exceptions, the ascertainment by an agency of the American Government of such costs with any degree of accuracy is wholly impossible. The United States Tariff Commission, in reporting to the Senate on the depression in the cotton cloth industry, stated that an investigation of the differences in the costs of production of cloth in the United States and abroad could hardly be completed in less than a year and it must be remembered that the United States Tariff Commission is a quasi-permanent body with a large and highly trained technical and statistical staff. In these circumstances, our inability to compare costs of production in India with those in Japan and the United Kingdom will be readily understood. We have, however, obtained a large amount of material in regard to costs of production in India in the hope that it might afford some guidance in determining how far the fact that the depression in Bombay is more acute than it is in Ahmedabad and in other upcountry centres is due to production in those centres being more economical than it is in Bombay. The difficulties mentioned by Mr. Page in using such material have been very strongly borne in upon us in the course of our enquiry. We endeavoured to frame our costing sheets in as simple a form as possible, but only seven of the upcountry mills were able to return them filled in and, even in Bombay and Ahmedabad from each of which we asked for costs of production for twelve mills, only eight and six were sent us in a form in which we could use them. Thus out of some seventy cost of production forms sent out, only twenty-one have been returned to us filled in and, even in regard to these, numerous difficulties have arisen owing to the adoption by different mills of different principles in filling up some of the items included in them. In such circumstances, it may be urged that deductions from the costs of production statements of twenty-one mills are of little or no value in view of the fact that there are 275 mills at work in India, but, although we frankly admit that the results obtained are hardly commensurate with the labour expended, we consider that there are certain conclusions which can be legitimately drawn in regard to comparative

conditions in Bombay, Ahmedabad and other upcountry centres. We are precluded by the desire of the Bombay Millowners' Association from publishing any figures which might be identified as those of a particular mill and by that of the Ahmedabad Millowners' Association from publishing any details for that centre at all and are, therefore, only able to present the results of our enquiry under this head in the form of averages for Bombay and upcountry centres and to refer in general terms to the results obtained from Ahmedabad. The figures we obtained from Bombay and Ahmedabad may be regarded as representative, as special care was taken to select mills of varying degrees of efficiency. The upcountry average is not so satisfactory from this point of view as the average efficiency of the mills which returned our forms must be considered high.

We present the results in the tables below which give the average manufacturing and overhead charges per spindle per day and per loom per day for the very limited number of mills in Bombay and upcountry centres other than Ahmedabad from which we have been able to obtain information. We should explain that, although strictly speaking, interest, commission and brokerage, depreciation on buildings and machinery and agents' commission should be included in overhead charges, the position and practice of the different mills vary so greatly in regard to these that no average struck from the figures we obtained would serve any useful purpose. The amount of interest paid varies with the financial position of the mill. Depreciation is taken as a charge on profits and not on production. The system of remuneration of managing agents differs, not only in the different centres, but in the same centre, as does also the system of calculating expenses in connexion with sales. In the table below we show the number of mills for which the average for each item has been struck. Where this is less than the total number of mills this is due to the fact that examination showed the advisability of omitting the figures of particular mills.

TABLE LXXI

Average manufacturing and overhead charges per spindle per day

	Bombay		Upcountry centres	
	Number of mills taken	Pies	Number of mills taken	Pies
A. *Manufacturing charges—*				
Fuel and power	8	1·87	7	2·25
Stores	8	1·16	7	1·29
Repairs and upkeep of machinery..	7	0·39	7	0·37
Wages	8	5·04	7	3·86
Total ..	..	8·46	..	7·77
B. *Overhead charges—*				
Municipal taxes, Government assessment, licenses, fees, etc. ..	8	0·17	7	0·07
Insurance	8	0·26	7	0·46
Repairs to buildings	6	0·14	7	0·19
Salaries of supervising and technical staff	8	0·42	7	0·66
Office expenses at mill and registered office of company	7	0·25	7	0·54
Miscellaneous charges	7	0·27	6	0·32
Total ..	..	1·51	..	2·24
Total manufacturing and overhead charges	..	9·97	..	10·01
Average number of spindles worked ..	8	52,749	7	51,136
Number of operatives per 1,000 spindles.	8	24·2	7	27·6
		Rs. a. p.		Rs. a. p.
Average wages .. Male ..	5	1 2 5	6	0 10 3
Average wages .. Female ..	5	0 13 2	6	0 6 4

The total figure for Ahmedabad, to our quoting which the Ahmedabad Millowners' Association have raised no objection, is 7·68 pies per spindle per day.

TABLE LXXII

Average manufacturing and overhead charges per loom per day

	Bombay		Upcountry centres	
	Number of mills taken	Pies	Number of mills taken	Pies
A. *Manufacturing charges*—				
Fuel and power	8	66·06	6	56·71
Water	7	2·86	5	2·76
Stores	7	55·58	4	76·69
Repairs and upkeep of machinery..	7	11·63	6	8·63
Wages	8	317·64	6	255·50
Total ..	..	453·77	..	400·29
B. *Overhead charges*—				
Municipal taxes, Government assessment, licenses, fees, etc. ..	8	6·06	6	1·85
Insurance	6	8·26	5	10·63
Repairs to buildings	6	3·62	6	3·89
Salaries of supervising and technical staff	8	24·31	5	28·12
Office expenses at mills and registered office of the company ..	7	8·62	5	19·43
Miscellaneous charges	7	9·49	5	6·96
Total ..	..	60·36	..	70·88
Total manufacturing and overhead charges	..	514·13	..	471·17
Number of working looms	8	1,259	6	1,203
Number of operatives per 100 looms ..	7	93	5	116
		Rs. a. p.		Rs. a. p.
Wages .. .. Male ..	5	1 13 5	5	1 1 10
Wages .. .. Female ..	5	0 12 4	5	0 7 0

The total figure for Ahmedabad works out at 450·29 pies per loom per day.

The cost of sizing material has been omitted from this statement as this varies greatly with the character of the cloth turned out and its inclusion would, therefore, invalidate the comparison. One of the staple products of Ahmedabad, as is well known, is a very heavily sized cloth though this is now produced to a smaller extent than formerly. This fact is reflected in the figures of cost of sizing material which should, therefore, in working out the cost per loom per day be regarded like that of yarn rather as a charge for

raw material. In order to complete the comparison, the figures for the cost of production of one pound of some standard count of market yarn such as 20s and of one pound of some standard line of cloth such as standard longcloth should also be given in order that it may be seen whether the lower cost per spindle per day and per loom per day in Ahmedabad and other upcountry centres, as compared with Bombay, is compensated by the higher production in the latter. We are not, however, in a position to give these, partly because of the objections which have been raised to our entering into details under this head and partly because any averages we might give would be vitiated by the fact that 20s market yarn is not spun by all the mills from which we received returns nor is there any standard line of cloth which is produced by all of them. All that can be said is, therefore, that the cost of production statements show that production both in yarn and cloth in Ahmedabad and in efficient upcountry mills is as high as it is in Bombay. The two tables, therefore, furnish a sufficient guide to the relative costs of production in Bombay and in efficient upcountry mills as do also the total figures for Bombay and Ahmedabad.

Comparative advantages of Bombay and other centres

52. An examination of the two tables given above shows very clearly in what respects Bombay is at an advantage or disadvantage over the mills in upcountry centres. It will be seen that its greatest disadvantage is in regard to wages, a point with which we have already dealt fully in the preceding chapter. This disadvantage is less marked in the comparison with Ahmedabad but is still very distinct even when it is remembered, in considering the total figures per spindle per day for Bombay and Ahmedabad respectively, that the cost of wages in Ahmedabad is brought down slightly by the fact that the mills in that centre spin higher counts on the average than the Bombay mills. The cost of fuel and power is higher in Bombay than in Ahmedabad and other upcountry centres, the cost of oil fuel and coal now being lower than that of hydro-electric power, which is the main source in Bombay.

It will doubtless be noticed that, while the cost of fuel and power works out at a higher rate per loom per day for Bombay mills than for upcountry mills, the reverse is the case when the rate is worked out per spindle per day and that here the Bombay mills would appear to be at a slight advantage. This is mainly due to the fact that the charges per spindle per day for upcountry centres are weighted by the high cost of fuel and power in an upcountry mill in the south of India which is a spinning mill only, but may also be due, to some small extent, to different systems of allocation of the cost of fuel and power between looms and spindles being adopted by the different mills.

In regard to the charge for water, Bombay is at a greater disadvantage as compared with upcountry centres than the figures would appear to indicate owing to the fact that the figures for the upcountry mills are somewhat heavily weighted under this item by the high charges for water in Sholapur. It is difficult to make a comparison between Bombay and

Ahmedabad under this head as some mills in Ahmedabad use water from their own wells. In respect of stores, Bombay has an advantage over Ahmedabad and other upcountry centres, partly as the result of the saving in railway freight, arising from its situation, and partly owing to the larger size of the Bombay mills which tends to economy under this head. The cost of repairs and upkeep of machinery is an item which varies with the mill and no generalisation can, therefore, be made in regard to it. The tables bring out clearly the disadvantage under which Bombay is in respect to local taxation, a disadvantage which is also apparent to a less extent in the comparison with the figures for Ahmedabad. The cost of insurance is lower in Bombay than in upcountry centres owing to the lower rate charged for mills with an approved sprinkler installation with which all the Bombay mills have been fitted. On the other hand, it is somewhat lower in Ahmedabad than in Bombay, the explanation for which appears to lie in the more substantial character and greater cost of the Bombay buildings and also in the necessity for insuring the higher stocks of yarn and cloth carried by the Bombay mills during the period covered by the cost of production statements. The item, repairs to buildings, shows little difference in the various centres while Bombay has a small advantage as compared with Ahmedabad and other upcountry centres in respect of the salaries of supervising and technical staff, again owing in the main to the larger size of the Bombay mills. The figures under office expenses are of special interest in view of the criticism levelled against the Bombay industry on the ground of the expensive offices maintained in the Fort. The examination of the costs of production statements shows that the office expenses, both in Ahmedabad and upcountry centres, are considerably higher than they are in Bombay. The figures for upcountry centres under this head cannot be considered entirely typical as some of the mills from which they were obtained are controlled by managing agents with offices in Bombay and have thus double office expenditure, but there can be no doubt that, partly owing to the larger average size of the Bombay mills and partly to the greater concentration of managing agencies in the same hands, Bombay has advantages over upcountry centres under this head. Miscellaneous charges are somewhat higher in Ahmedabad than in Bombay which, however, is at a disadvantage in comparison with upcountry centres in respect of this item. Both in regard to office expenses and miscellaneous charges the different mills have adopted different methods of allocation and the combined figures under these heads, therefore, furnish the best basis for comparison.

The cost of the raw material is, as we have shown elsewhere, the largest single item in the cost of manufacture of cotton goods. It is, unfortunately, impossible to show in figures the advantage, if any, that Ahmedabad and other upcountry centres have over Bombay in this respect. Ahmedabad is at some advantage in its proximity to the important Kathiawar and Broach crops. Most of the mills in other upcountry centres are actually situated in cotton growing tracts and are, t erefore, at an advantage over Bombay in regard to the particular counts for which the cotton grown in the tracts in which they are situated is suitable, the mills in the north of India in regard to the lower counts,

those in the Madras Presidency and Mysore in regard to the higher counts and those in Sholapur and Nagpur in regard to counts somewhere between the two. The only advantage, therefore, that Bombay enjoys in regard to raw material is in respect of imported cotton. One consideration which should not be overlooked in this connexion is that most up-country mills, including those in Ahmedabad, purchase the major portion of their supplies for the year during the cotton season while the Bombay mills can obtain supplies all the year round and that this handicaps the former, especially in a period of falling prices. On the whole we are of opinion that the balance of advantage in regard to the supplies of raw material is against Bombay.

Another advantage which it is also impossible to assess in figures is that derived from proximity to markets. We have commented on the extent to which the upcountry mills are scattered throughout India. The great majority of them are, therefore, able to cater for definite local markets. Their situation in or their nearness to these and their closer acquaintance with their needs give them a distinct advantage over Bombay. It is partly for this reason that, so far as we have been able to ascertain, their stocks of manufactured goods have, throughout the depression, been much lower than those which have been held in Bombay. We consider, however, that there is good reason to believe that Ahmedabad and other upcountry centres have shown much greater willingness to dispose of stocks at the current rates than has been shown by the Bombay mills and that this has helped them throughout the period of falling prices. Our conclusion under this head is that proximity to local markets is a factor which operates appreciably to the benefit of the mills in upcountry centres.

Our examination of the costs of production in the various centres will, we think, have shown that by far the greatest disability from which Bombay suffers is in its high costs of labour. It is also under substantial disadvantages in regard to cost of fuel and power, cost of water and higher local taxation, but it would seem, from the tables we have given above, that these are rather more than offset by advantages in regard to the cost of stores, of insurance and of office expenses. So far as costs of production are concerned, it is in labour costs that is to be found the main reason why the depression in the industry has been felt so much more acutely in Bombay than it has elsewhere.

CHAPTER IX

REMEDIAL MEASURES

I. Internal economies

Introductory

53. In the preceding chapters, we have, in accordance with our terms of reference, investigated the condition of the cotton textile industry in India with special reference to Bombay and Ahmedabad. We have shown that the present depression in the industry is much less acutely felt in Ahmedabad and other upcountry centres than it is in Bombay. We have further examined the causes of the depression and have shown that these fall under four main heads. The first of these, world factors, such as the altered relation between agrarian and general prices and the consequent reduced purchasing power of the agricultural classes, the cyclical character of trade throughout the world and the course of American cotton prices, has affected the whole of India, but owing to the outstanding importance of Bombay as a commercial and industrial centre, the usual features of a boom and a depression have been much more apparent there than elsewhere. The second cause, Japanese competition, has also affected Bombay far more than any other centre but has not been without effect on the industry generally. The third and fourth causes, the loss of the China trade in yarn and the increasing competition of the more favourably situated upcountry mills, may be considered special to Bombay, but the fact that the loss of the China trade in yarn has meant that Bombay has had to seek an outlet for the equivalent of an additional three hundred million yards of cloth in the home market has obviously reacted on the position of the upcountry mills. The increasing competition of the upcountry mills with Bombay has, however, in our view proved much more serious to Bombay than has that in the reverse direction to the upcountry mills. We have further pointed out a number of other factors, such as currency changes and lack of adequate financial facilities, which have contributed to accentuate the depression throughout India, and high labour costs, high local taxation and lack of attention to upcountry markets which have accentuated it in Bombay. It need hardly be pointed out that it is impossible to divide either causes or effects into water-tight compartments. High labour costs, in a period of falling prices, are, for example, a normal feature of the aftermath of a boom and are therefore closely connected with the first cause we have assigned for the depression.

We have been directed to report whether the causes of the depression are of a temporary or permanent character. There is no more difficult problem in economics than that which is presented by a trade cycle, the causes of which are complicated and obscure in the extreme. All that can be said is that, while the period for which a boom or a depression may last varies in duration, both boom and depression invariably come to an end, and to the extent that the depression in the cotton textile

industry in India is the outcome of the cyclical character of trade, it is not of a permanent nature. It is obviously impossible to prophesy when the upward movement will begin, but the recent course of American cotton prices gives reason to believe that a commencement of improved conditions should not be long delayed. The recent heavy fall in the price of American cotton has undoubtedly made matters worse for the time being, especially in Bombay, owing to the heavy stocks in that centre of goods made from cotton bought when prices were high, but the return to the prewar level of cost of the raw material should mean the approaching end of the period of falling prices both of raw material and manufactured goods, the commencement of a period of a far more stable level of prices than there has been in recent years, and the consequent recovery of confidence in the outlook on the part of dealers in yarn and piece-goods, the lack of which has proved so detrimental to the industry.

It is again impossible to express a definite opinion as to how far foreign competition can be regarded as a permanent cause of depression. The recent improvement in the gold value of the yen has mitigated the severity of Japanese competition to a considerable extent but there can, we think, be no question that Japanese competition will continue to exercise a depressing effect on the cotton textile industry in India for so long a period as Japanese labour conditions remain inferior to those in India in respect of hours of labour and the employment of women at night, that is at least until towards the end of 1929. How far it will continue in full force after the middle of 1929, when the prohibition of night work for females and juveniles under 16 becomes operative, depends on two uncertain factors, the steps taken by the Japanese to meet the situation caused by the prohibition of night work, to the effects of which there is ample evidence to show that the Japanese industry is fully alive, and the steps taken by the Indian industry to place itself in a stronger position to meet foreign competition.

The loss of the China trade in yarn must be regarded as a cause of depression which is of a permanent character. There is, in our view, no reason to expect any appreciable recovery of that trade. The effects of losing it can, however, be mitigated to some extent by the development of other foreign markets.

Whether the increasing competition with the Bombay industry of mills in Ahmedabad and other upcountry centres, which we hold to be one of the most important causes of the present depression in Bombay, is a cause of a temporary or permanent character must entirely depend on the steps taken by the Bombay industry to meet it. That it has been a cause of depression in Bombay is undoubtedly due to a large extent to failure to realise its importance. Competition from Ahmedabad and other upcountry centres is a factor which has to be recognised in greater degree by the Bombay mill industry than it has been in the past, but it does not follow that it need continue to be a cause of depression if energetic action is taken to deal with the changed situation it has brought about. Closely connected with this cause, are the subsidiary causes we have mentioned, namely, high labour

costs, high local taxation and lack of attention to upcountry markets. The same comments apply to these except to the least important of them, high local taxation, which it is certain must continue to affect the Bombay mill industry unfavourably.

Our examination of the causes of the depression and of the extent to which these may be regarded as permanent or temporary will have given some indication of the character of the remedies we now proceed to discuss. We shall first examine the possibility of economies in production more especially of an adjustment though not necessarily a reduction of wages to meet the altered level of prices. With this is closely connected the question of diversification of production and the extent to which this would relieve the congestion in the home market caused by the disproportionate production of certain lines of goods. A cognate question is that of the provision of adequate financial facilities for the industry. We shall then discuss the extent to which a remedy for the depression is to be found in the development of the export trade and shall conclude by an examination of the necessity for safeguarding the industry against unfair competition or for any larger measure of protection. With this is connected the question of the desirability of State aid in any form other than that of changes in the tariff.

Internal economies

54. The only ways in which depression in an industry can be overcome by action on the part of the industry itself are by a reduction in the costs of production and by improvements in organisation which include alterations in the character of the output. Any improvements effected in either or both these ways will not only materially help the Indian mill industry generally better to withstand foreign competition, but will also strengthen the position of the Bombay mill industry in meeting the competition of upcountry mills.

We propose to examine, therefore, the extent to which economies in production appear possible and also the possibility of improving the organisation of the industry. It will be convenient to examine the question of costs of production somewhat in the order in which those costs are given in the costs of production statements. It is unnecessary to comment on items such as repairs and upkeep of machinery, repairs to buildings, office expenses and miscellaneous charges, which are matters for the particular mill and in regard to which no generalization is possible. Our examination is, in the main, directed to the Bombay mill industry but it will be obvious that many of our suggestions are also applicable to mills in Ahmedabad and in other upcountry centres.

(*a*) *Raw material*

55. We have shown elsewhere how great a proportion the cost of the raw material bears to the cost of the finished product in the cotton textile industry. The cost of the raw material is an item of the cost of production over which the manufacturer has no control but it is obviously essential that he should be in a position to effect his purchases in the most economical manner and that they should be as free as possible from the element

of risk. Most of the mills in Bombay purchase their cotton from the Jaitha at Mazgaon, but a growing number of mills have their own agents in the cotton districts, who buy cotton on the spot, have it ginned and pressed and arrange for its transport to Bombay. Several witnesses before us advocated the general adoption of this system on the ground that it eliminated middlemen's profits and enabled the mills to secure the exact quality of cotton they require. These are undoubtedly advantages which are fully realised by the larger mills but the smaller mills, owing to their inability to maintain agencies in a number of upcountry centres, would find it a more expensive system than that of purchasing in Bombay where they have a wide range of choice and where, owing to the keenness of competition, middlemen's profits have been cut down to a low figure. One objection which has been raised to the system of direct purchase upcountry is that the mills which adopt it have, in order to secure cotton, to make very large purchases in a few months of the year and to store the cotton at the mills until it is actually required for consumption and that this involves interest and insurance charges. These would, however, presumably have to be paid in any case, since they must be included in the middlemen's charges when cotton is purchased in Bombay, as the cotton has to be stored somewhere and the burden of financing it has to be carried by some one until it is actually required. A more serious objection raised in the evidence before us was that as the Bombay cotton market is organized at present it is not possible for mills to effect a satisfactory hedge against purchases of cotton or against forward contracts in yarn and cloth for which cotton has not already been secured and that this introduces a speculative element into their transactions. The point is one of such vital importance to the industry that it is necessary to examine it in some detail.

The present system of hedge contracts in Bombay owes its origin to the conditions towards the close of the war which resulted in the constitution, in 1918, of a Cotton Contracts Committee for the purpose of controlling contracts in cotton. This Committee was subsequently superseded in 1919 by the Cotton Contracts Board which was, in turn, replaced, in 1922, by the East India Cotton Association. In the letter No. 6505, dated the 25th September, 1920, from the Government of India in the Commerce Department to the Government of Bombay which led to the constitution of this Association it was pointed out that " One of the most important duties of the Association will be to regulate the market in ' futures ' and to draw up standard forms of contract for the future delivery of cotton..... The question is one of vital importance. The market in ' futures ' is the market in which speculators operate and the Association must be judged by the manner in which it deals with these contracts. The matter is a very technical one, but, as at present advised, and in pursuance of their guiding principle that ' the aim should be so to regulate the market as to secure the interests of *bona fide* traders and to discourage speculation inimical to those interests ', the Government of India consider that contracts for the future delivery of cotton should be limited to hedge contracts and delivery

contracts..... As regards hedge contracts, the Government of India recognise that the ideal to aim at is that there should be, as in the Liverpool and New York markets, a single hedge contract. But they understand that the introduction of a single hedge contract is opposed by the great majority of Bombay traders and they will not object to a reasonable number of such contracts provided that in framing the conditions of each contract, the principle is observed that the contract must be wide enough to prevent cornering by speculators." The present position is that although, ever since the constitution of the East India Cotton Association, the Bombay Millowners' Association have been pressing for the adoption of a single hedge contract there are still five hedge contracts in existence. They are :—

(1) Fully good M. G. Bengal Contract, fair average staple of the season, including cotton from the United Provinces, the Punjab, Sind and Rajputana.

Months of delivery—December-January, March, May, July.

(2) Fully good M. G. Broach Contract, fair average staple of the season, including cotton of the following descriptions, namely :—

Broach, Saw ginned Dharwar, Punjab-American, Surat, Navsari, Rajpipla, Dholleras, Kalagin, Cutch and Kadi-Viramgam.

Months of delivery—April-May, July-August.

(3) Fine M. G. Oomra Contract, fair average staple of the season including cotton from the Central Provinces and Berar.

Months of delivery—December-January, March, May and July.

(4) Fully good M. G. Oomra Contract, fair average staple of the season, including cotton from Berar, the Central Provinces, Central India, Khandwa-Burhanpur, Khandesh and Kathiawar (Muttia).

Months of delivery—July and September.

(5) Good M. G. Southerns Contract, including cotton of the following descriptions, namely :—

Westerns, Northerns (excluding 'Red'), Bijapur, Bagalkote, Coompta, Miraj, Cambodias, Tinnevellies and *karungannies*.

Months of delivery—May-June, August-September.

Of these, only three are in practice actually traded in, the Fully Good Oomra contract being practically never and the Southerns Contract very seldom used. In spite of the fact that so little use is made of these two contracts, the East India Cotton Association is unwilling to abolish them and to reduce the number of hedge contracts to three. The first objection raised by the Bombay Millowners' Association to the present system is that, in certain months of the year, they are unable to make a hedge contract which can be used against their purcha sesof cotton and sales of cloth and that, when one contract expires, no new contract is available to which sales or purchases of hedges can be transferred. The primary function of the hedge contract system is to provide a means of insurance against the fluctuations of the market which shall be always

available, but this the Bombay system fails to do. The Bombay Millowners' Association give as an example the Broach Contract, the months of delivery for which are April-May and July-August. They state that, to avoid the risk of being saddled with actual cotton, the contract has to be liquidated by the end of March at the latest as the July-August contract, when in operation, is too speculative to be used by mills as a hedge, a fact which has been recognised by the Board of Directors of the East India Cotton Association which has, from time to time, prohibited trading in this position. The result is that, as no new contract opens until the beginning of June, the mills are left uncovered from the middle of March until the beginning of June, a period of 2½ months during which they have no means of insuring themselves against fluctuations in prices. They, therefore, ask that some two or three months before a contract expires, a contract of a similar character should be opened in which it should be possible to trade for the following season. If, for instance, the Broach Contract expires on May 25th, 1927, a new Broach Contract should be opened on or before March 1st, 1927 for delivery up to the 25th May 1928.

The second objection to the existing system which has been raised by the Bombay Millowners' Association is that the present contracts are open for delivery for three or at the most four months in the year and that it is essential for a really satisfactory hedge contract that it should be open for delivery throughout the year. Until a single hedge contract is instituted, this objection cannot be overcome as the varieties of cotton included in the present contracts are not available throughout the year.

It is much to be regretted that, on a matter which the Bombay Millowners' Association rightly, in our opinion, regard as of very great importance to the industry, such widely divergent views should be held by the two bodies most concerned, the Bombay Millowners' Association and the East India Cotton Association, each of which contends that the other is ignorant of the working and proper function of a hedge contract system. We should thus be placed in a position of special difficulty in making any recommendations under this head were it not that a partial solution of the problem which has commended itself to the Millowners' Association and to an influential section of the East India Cotton Association has been put forward by Messrs. Forbes, Forbes, Campbell and Company who suggested, in 1925, that the five existing contracts should be reduced to four, the details of which would be as shown below :—

(1) F. G. Bengals, as at present.

Months of delivery—December, January, March, May, July.

(2) F. G. Broach, as at present, but with the option of tendering C. P. No. 1, Tinnevellies and Cambodia.

Months of delivery—February, March, April, June, August.

(3) Fine Oomras, as at present, but Jalna and Fine Khandesh to be included and option given of tendering any cotton tenderable against the M. G. Broach box.

Months of delivery—December, January, March, May, July.

(4) Good Southerns, as at present, but with the option of tendering any cotton tenderable against the Surat and Punjab-American boxes.

Months of delivery—May, July, August, September.

It will be seen that the adoption of this proposal would go far to meet the objection of the Bombay Millowners' Association to the present system as the number of contracts would be reduced, the scope of three of the four contracts widened and the number of delivery months increased. The proposal in a slightly modified form was accepted, not only by the Bombay Millowners' Association, but also by the Board of Directors of the East India Cotton Association, but did not meet with the approval of the Representative Committee of the latter body which rejected it at a meeting held in June 1925.

While we consider that there has been no change in the position laid down in the letter from the Government of India which we have quoted above and that a single hedge contract remains the ideal to be aimed at, we realise that the immediate institution of such a contract is not feasible as it would involve too drastic an alteration in present practice. At the same time, we regard it as so essential to the well being of the mill industry that the speculative element in the purchase of its raw material should be reduced as far as possible that we cannot but consider it eminently desirable that the wishes of the Millowners' Association in this matter should be met as far as is practicable. That the proposals put forward by Messrs. Forbes, Forbes, Campbell and Company represent a reasonable and workable compromise is shown by their acceptance both by the Bombay Millowners' Association and by the Board of Directors of the East India Cotton Association. We are, therefore, strongly of opinion that they should again be placed before the Representative Committee of the latter body and trust that, realising the necessity of strengthening the position of the Bombay mill industry in all possible ways, with corresponding advantage to the cotton trade as a whole, it will find itself in a position to accept them.

It was urged before us that the adoption of a single hedge contract or the widening of the existing contracts would be detrimental to the interests of the cultivator of cotton, as it would tend to lower the price of all varieties of cotton. We are unable to appreciate the force of this argument. The number of hedge contracts has already been reduced from seven to five and of these only three are extensively used. This does not appear to have had any effect in enabling the mill industry to get cotton more cheaply. It should also be remembered that, while the narrowness of a contract makes it easier for speculators to raise prices artificially by means of a "squeeze," the reverse also holds true, and that it is equally easy to depress them in a narrow market and also that, when a "squeeze" takes place, whether it is successful or not, it is almost always followed by a depression in prices. We have more than once pointed out that the price of cotton in India in normal conditions is regulated almost entirely by the world price of cotton. This being so, a single hedge contract

system could not affect it and the adoption of such a system would not, in our view, prove in any way detrimental to the interests of the cultivators.

A suggestion was made to us that the millowners should make greater use of the system of buying cotton "on call" under which a part of the risk attendant on the purchases of cotton is passed on to the broker. It is, however, unnecessary to discuss this suggestion at length as it appears that, for the system of purchasing cotton "on call" to have any value to the manufacturer, satisfactory hedges must always be available.

The co-operative purchase of cotton by mills was also advocated by many witnesses. The requirements of the mills are so diverse that we doubt whether any satisfactory scheme for this could be worked out to suit Indian conditions though a combination for the purchase of imported cotton, more especially of Uganda cotton, should, as we have pointed out elsewhere, have advantages in such matters as obtaining better freight rates.

Among the charges brought against the managing agency system was that lax supervision permitted the delivery at the mills of cotton both inferior in grade and smaller in quantity than that for which the order was placed by the managing agents. Our examination of the system adopted for the purchase of cotton by the managing agents showed that it was impossible that there should be any substantial foundation for this charge, but we are of opinion that managing agents would be well advised, in their own interests, to employ brokers who do not operate on their own account and who are not themselves in actual possession of cotton. The acceptance of this suggestion would materially reduce any possibility of the substitution of inferior cotton.

The statement which was made to us by some witnesses that the Japanese frequently obtain cotton at lower prices than the Indian mills appears to be based on the fact that the Japanese, owing to their closer organisation and the large scale on which they operate, both in the Indian and American markets, are in the best possible position to make the fullest use of the existing hedge contract system and to take advantage of such a fall in prices as occurred after the failure of the attempted corners in the Bombay market in 1922.

There is one further point in regard to the purchase of cotton direct by the mills to which reference may be made. There can be no objection to mills having subsidiary local companies for the purchase, ginning and pressing of cotton. On the other hand, this has the advantage of enabling local interests to be enlisted. The system is only open to objection where managing agents are financially interested in such companies apart from the mills and we were informed by the representatives of the Bombay Millowners' Association that there are isolated cases of this kind.

(*b*) *Fuel and power*

56. We have shown in Chapter VIII that the Bombay mills are at a distinct disadvantage compared with mills in Ahmedabad and many

upcountry centres in regard to their expenditure on fuel and power and that this disadvantage is at present specially apparent where mills use electricity instead of oil or coal as their source of power owing to the recent fall in the cost of coal and oil fuel. It does not, however, appear possible for the Bombay mill industry to effect any economies in this respect as no less than 72 out of 83 of them have entered into contracts for the supply of electric power with either the Tata Hydro-Electric Company or the Andhra Valley Power Company and none of these contracts expires before 1932. The charge under these contracts varies with the date on which it was entered into and the company with which the contract was made. The lowest rate for power alone is ·485 of an anna per unit but this is paid by two mills only and the majority of the mills pay ·725 of an anna per unit which, in the case of contracts with the Andhra Valley Power Company, is for power only but in that of contracts with the Tata Hydro-Electric Company includes the charge for the company's transformer and meters. It may be of interest to mention that the majority of the mills in Japan depend on electricity for their motive power and that the cost of electric power varies considerably according to locality, the rate in the City of Osaka being approximately 2·5 sen per kilowatt hour, in the Tokyo district about the same and in Ogahi 1·5 sen. There is keen competition in some districts, such as Osaka, among rival power companies and there is a tendency for rates to decline. The rates are lower for factories which work double shifts, the ordinary rate in Osaka being 4·0 and 4·5 sen per kilowatt hour. The Osaka rate of 2·5 sen per kilowatt hour works out at ·54 annas per unit at the present rate of exchange and the Ogahi rate at ·32 annas per unit.

(c) Water

57. We have mentioned in Chapter VIII that the mills in Bombay are at a disadvantage in regard to the cost of water as compared with those in Ahmedabad and in most upcountry centres. The high cost of water in Bombay has undoubtedly been a factor in retarding that development of the bleaching industry which is, as we shall show, very necessary in the interests of the industry. Contrary to what is, we believe, the almost universal practice, it is the consumer of water on the largest scale who, in Bombay, is charged the highest rate for it, the charge for cotton mills being 16 annas per 1,000 gallons against eight annas per 1,000 gallons for private consumers who pay by measurement and two to three annas per 1,000 gallons for consumers who pay on rateable value only. The rate was raised from 7¾ annas per 1,000 gallons in 1921-22 to 12 annas per 1,000 gallons in 1922-23 and again to 16 annas per 1,000 gallons in 1925-26. The Bombay Millowners' Association state that the additional burden on the industry imposed by the increased charge in 1925-26 was Rs. 2·54 lakhs. That the charges for water press with undue heaviness on the mill industry has been recognised whilst our enquiry has been in progress and a reduction has been suggested by the Municipal Commissioner to the Standing Committee of the Bombay Municipal Corporation, the reduced charges to come into effect from April 1st, 1927. In these

circumstances, we need do no more than point out that a supply of cheap water is a matter of very great importance to the Bombay mill industry and that a further reduction to the old level of charge is eminently desirable as soon as financial conditions permit.

(*d*) *Stores*

58. Our examination of the costs of production statements has shown that Bombay is not at any disadvantage in comparison with Ahmedabad and other upcountry centres in regard to cost of stores. On the other hand, it has the advantages of saving in railway freight on all imported stores which form by far the greater part of the stores used and of economies due to the larger average size of its mills. The Bombay Millowners' Association consider that every possible economy in the use of stores has been effected. Our enquiries have, however, shown that there is no department of the mill industry in regard to which charges of corruption are more rife than in regard to the purchase of mill stores, the allegation being that the staff of the mills are in the habit of reporting unfavourably on the results of using stores in respect of which they have not received a secret commission. No direct evidence on the point was, however, forthcoming but the persistency of such allegations would seem to show that they may not be altogether without foundation and we, therefore, consider it most desirable that managing agents should exercise the closest supervision over all purchases of stores.

(*e*) *Labour*

Level of wages

59. In a time of depression, the most obvious method of effecting an economy in the cost of production is by reducing the wages of labour. We have shown that Bombay is at a marked disadvantage in this respect, both in relation to Ahmedabad and other upcountry centres, and that, whilst Ahmedabad was able to reduce wages in 1923, the efforts of the Bombay Millowners' Association to do so in 1925, ended in failure. They have not been repeated and it will be evident that every month which elapses makes it more difficult to effect a reduction in wages. It is very natural that the Bombay millowners, in the light of their experiences in 1924 and 1925 should be anxious to avoid another strike. The only alternative to a reduction in wages is increased efficiency and it is in this direction that, in our view, the true line of advance lies. Here again, however, the Bombay Millowners' Association appear to think that everything possible has been done but, if that is so, we cannot too strongly emphasise our conviction that the outlook for the Bombay mill industry is very gloomy, for it must be remembered that the great majority of the upcountry mills started a long way behind the Bombay mills in the matter of labour efficiency but are rapidly gaining on them in this respect. Bombay and Ahmedabad, as long established centres of the cotton industry, have hitherto been at a distinct advantage as compared with the rest of India in possessing a comparatively well trained labour force, an advantage which has been set off to a large

extent, by the greater cheapness of the upcountry labour supply. As time goes on, however, the upcountry labour supply, while retaining its relative cheapness as compared with that of Bombay, will undoubtedly closely approach, if not equal, the latter in efficiency. Valuable light on this point has been thrown by figures obtained from some upcountry mills in regard to the fall in production owing to the reduction of the hours of labour in 1920 from 12 to 10. The Bombay Millowners' Association place this at 16 per cent. in the spinning department and about 11 to 12 per cent. in the weaving department but the experience of some mills in upcountry centres has been that, owing to increased labour efficiency and improved conditions, such as the installation of humidifiers, the drop in the production in the spinning department has been reduced to 10 per cent. while there has actually been increased production in the weaving department.

Much has been written in regard to the inefficiency of Indian labour resulting from lack of education, unsuitable environment, absence of any sense of discipline and the like causes and, as the evidence we received showed, the opinion is generally held that improvement must be a slow and tedious process. None the less, we hold that there are certain reforms which can be introduced at once in Bombay and which, it is essential, should be introduced if the industry is to hold its own.

Absenteeism

60. It was urged in evidence before us that the efficiency of labour in Bombay is greatly reduced by the high percentage of absenteeism among the operatives. Though this does not affect the total amount of the wages bill, as a man who is absent is not paid for the days he stays away, it seriously detracts from efficiency as the place of the absentee has to be taken by a casually recruited, and often inefficient substitute who is known as a "budli." It was pointed out that Ahmedabad has a great advantage over Bombay in this respect as the percentage of absenteeism in Ahmedabad is very much lower than it is in Bombay. In October 1926, for example, the percentage returned for Ahmedabad was 2·74 only against 12·25 for Bombay and 11·24 for the Bombay Presidency as a whole. There is, however, some reason to doubt the correctness of the figures both for Bombay and Ahmedabad. We were informed that, in Bombay, a weaver who is absent provides a substitute who, if he is accepted by the mill, is put to work on the looms of the absentee weaver who is then marked present. This practice obviously has the effect of making the percentage of absenteeism appear lower than it really is. On the other hand, a detailed census of absenteeism conducted by the Labour Office in July 1926 showed a total absenteeism of 8·97 per cent. for 18 representative mills whereas the returns obtained in the usual way from all the Bombay mills for that month gave a percentage of 10·38. Again, in Ahmedabad, it would seem that a number of mills do not understand the correct method of filling up the forms and return the number of men who are absent on a particular day and for whom no substitutes have been employed, as the absenteeism for the day. But

even if full allowance is made for factors such as these, it is clear that Ahmedabad has a great advantage over Bombay in the matter of absenteeism, both in respect of a low rate throughout the year and also of the absence of the wide seasonal variations which are apparent in other centres. This advantage was explained to us as being due to the fact that the mill operatives in Ahmedabad are mostly drawn from an industrial population which has been settled in the city for generations. The Muhammadan workers, in particular, seldom possess any land of their own and, therefore, do not find it necessary to attend to cultivation at certain seasons of the year. The Patils, another large class of workers, are reported to have a custom whereby, if there are two brothers, one attends to cultivation and the other works in a mill alternately.

It is not easy to suggest any method by which the percentage of absenteeism can be reduced. We were informed that the grant of attendance bonuses has been tried and that a few mills still give them but that they have had little or no effect in reducing the number of absentees. One method adopted in a mill in Bombay, though not a cotton mill, is for the management to examine each case of absenteeism and when it is found that the operative's absence has not been due to sickness or to domestic reasons, to refuse him employment for a few days. The mill which has followed this system has reduced its absenteeism from 15 to 1 per cent. and has thus been able to dispense entirely with the "budli" system. In our view, the effect of absenteeism can best be minimised by the general adoption of a system which is already in force in a few mills in Bombay. Under this system, a certain number of spare hands are entertained in each department except the weaving department. The percentage of extra men in each department is not necessarily the same, but we were given to understand that, spread over the whole of the mill, it usually worked out at about 10 per cent. The spare men are borne on the pay roll and receive their wages even if the full complement of workers in their departments is present. It may thus occasionally happen that the number of men on the pay roll for a particular day may be in excess of the labour force necessary for the efficient working of the mill, but the figures for absenteeism seem to indicate that this is seldom the case since the absenteeism generally exceeds 10 per cent. In any event, any loss to the mill on this account should be much more than made up by a gain in efficiency for it will be obvious that men who are already employed in the mill and are familiar with its conditions and machinery must be of greater use than men casually recruited on the day for which their services are required. We consider the general adoption of this system most desirable. It would, moreover, facilitate the grant of leave to operatives on a regular system such as we found in force in a mill in Madras.

Suggestions for obtaining increased output per operative

61. We are strongly of opinion that an extension of the piecework system to spinners would have a perceptible effect in increasing the efficiency of the Bombay mill industry and that this should be accompanied by an increase in the number of spindles allotted to each spinner. It may

be noted that Bombay is the only centre in the Bombay Presidency in which there are no spinners on piecework and that we found the system in force in several mills outside the Presidency. The representatives of the Bombay Millowners' Association explained to us that it would be very difficult to introduce a radical change of this nature since it would have to be introduced by all mills, as otherwise any mill making the change would be faced by a strike. We entirely agree that a change of this kind must be general but, unless the Bombay millowners are prepared to take combined action in matters of such vital importance to the industry, we can only repeat that the outlook for the industry in Bombay is very far from hopeful. The problem before the Bombay mill industry is, as we have explained, the maintenance of its labour efficiency relative to that of other centres.

The position in regard to the number of spindles looked after by each operative is exactly the same as it is in regard to the introduction of piecework. In Japan, according to the Report of the United States Tariff Commission, the number of spindles looked after by each operative is 240, whereas in India it is only 180. In England it is 540 to 600 and in the United States it is 1,120. In all these countries, with the exception of India, the labour employed in spinning is almost exclusively female whereas in India it is mostly male. The progress made by Japan in this respect in recent years is very striking. In 1903 the number of operatives per 1,000 spindles was 56·7, in 1914; 48·3 and in 1924, 37·2. These figures have, of course, to be halved on account of double shift working. Corresponding figures for India are unfortunately not available as the figures of operatives employed in the spinning and weaving departments in Indian mills are not returned separately. Our examination of the costs of production, however, shows that the average number of operatives per 1,000 spindles in Bombay is considerably higher than in Ahmedabad and that Ahmedabad has already a clear advantage in this respect even allowing for the higher counts spun in the latter centre. The Bombay Millowners' Association hold that nothing can be done to increase the number of spindles per operative in India owing to the inefficiency of Indian labour. All that can be said, in reply to this contention, is that we actually found an experiment on the lines we here suggest in progress in a mill in Madras, where three operatives instead of four are now looking after 720 spindles, that is 240 each. Of the wages of the operative who has been dispensed with, four-fifths go to the three operatives and one-fifth to the mill and we were informed that the operatives were quite satisfied with the arrangement. In view of the higher wages ruling in Bombay, this ratio would not necessarily be suitable for that centre. A change in this direction would, obviously, be greatly facilitated by the introduction of the piecework system in the spinning department.

A noteworthy feature of the Indian cotton mill industry, which is of great importance in this connexion, is the disparity between the wages of spinners and weavers. In the enquiry conducted by the Labour Office in 1923, the average daily wages in the ring spinning

department in Bombay were returned at Re. 1-0-4 whereas those of the weaver in charge of two looms, that is of the great majority of the weavers, were returned at Re. 1-11-3. This is entirely contrary to the practice in other countries where the wages of spinners and weavers are practically the same. In Japan, for instance, the average wages of males in the spinning department in 1925 were 1·554 yen per day against 1·578 yen for weavers and those of females 1·221 yen against 1·227 yen, the average for all operatives in the spinning department, 1·297 yen per day, being very slightly higher than for those in the weaving department, *viz.*, 1·283 yen per day. Considered in the light of world conditions in this respect, it would seem that either the wages of the Indian spinner are too low or those of the weaver too high, or else that the efficiency of the Indian spinner is low as compared with that of the Indian weaver. This disparity in the wages of weavers and spinners is a matter which, in our view, deserves the consideration of the industry. The reform we have suggested, the introduction of the piecework system in the spinning department, coupled with an increase in the number of spindles allotted to each spinner, would assist in rectifying it. The suggestion we have put forward in the preceding paragraph should enable difficulties arising in the transition stage to be surmounted. An increase in the number of spare hands entertained by the mills would, in normal circumstances, permit of assistance being given to those spinners who are unable easily to accommodate themselves to the new conditions.

In India, the number of looms attended by one weaver is usually two though in some upcountry centres, notably Madras, it is only one. In Japan it averages 2½, in the United Kingdom it is usually four to six and in the United States nine. Even now, both in Bombay and other centres, there are weavers who look after three and four looms. An increase in their number would obviously tend to economy and give increased earnings to the weaver even when accompanied by a slight reduction in rate.

Similar economies to those we have suggested in the spinning and weaving departments can, in our opinion, be effected in the preparatory departments. For example, there appears no reason why one operative should not look after two roving frames instead of one and we would recommend, as a commencement, that experiments should be made in this direction on frames used for the spinning of higher counts.

All efforts to improve the efficiency of operatives will be greatly hampered if there is no corresponding improvement in the standard of efficiency of the jobber who overlooks them. The wages of these men, which, in Bombay, at the wage census of 1923 averaged Rs. 2-15-2 per day for jobbers paid by time and Rs. 4-1-0 for jobbers paid by piece work, are such that a higher level of technical knowledge than they possess can reasonably be expected from them. The remedy, therefore, lies in the provision of greater facilities for technical education, a point to which we refer in paragraph 68 below.

We cannot too strongly emphasise that no increase in outturn from operatives can reasonably be expected, unless they are provided with proper raw material. There undoubtedly exists a tendency in Indian mills to spin higher counts of yarn from cotton than the quality of the cotton warrants. This reduces production, is injurious to quality and, what is of the greatest importance in the present connexion, increases the work of the operative both in the spinning and weaving departments owing to the large number of breakages he has to piece together. There is also a tendency to speed up machinery in order to secure increased production without any alteration in the character of the mixing. This, too, leads to the same result. The introduction of the changes we suggest in this paragraph will undoubtedly be very greatly facilitated if special attention is paid to the provision of cotton suitable for the counts spun and the speed at which the machinery is run.

Periods of rest

62. A minor, but in our opinion, very essential reform which should be immediately introduced in the Bombay mills is the fixation of a definite period of rest to enable the operatives to take their morning meal. We were greatly struck during our inspection of mills by the number of operatives we found taking food in the mill compounds an hour or two after the commencement of work. This materially affects efficiency and we are of opinion that the commencement of work should be put back to 6-30 a.m., a period of rest of half an hour being granted from 9 a.m. to 9-30 a.m. or 9-30 a.m. to 10 a.m. to permit of meals being taken. This reform has already been introduced in the mill in Bombay to which reference has been made and the new system has been found to work successfully. If the mills find combined action in this respect difficult, the difficulty might be overcome by an amendment of the Factory Act though we are of opinion that it should be possible to secure the required object without legislation.

Recruitment of labour

63. It was urged, in evidence before us, that the system of recruitment of labour in Bombay leaves much to be desired and does not tend to efficiency as it places too much power in the hands of the jobber or foreman who recruits not necessarily the most efficient man but the one who is willing to pay him the largest commission or in whom he is otherwise interested. The Millowners' Association, on the other hand, whilst admitting that the present system furnishes openings for corruption, hold that it is the only possible system in Bombay conditions, as the jobber is in touch with labour to an extent that no official of the mill can possibly be and that it does not necessarily follow that because a jobber produces men, they are engaged by the mill. They further contend that it is not always possible for all vacancies to be filled from the applicants waiting at the mill gates for employment and that, when this is the case, the only course open is to send out jobbers to the homes of the operatives to collect men. This should, however, only be necessary in abnormal conditions. We are of opinion that the present system is undoubtedly open to the objection that it places too much power in the hands of the

jobber and that it is desirable that all labour should be engaged directly by the officer of the mill in charge of the department which requires it or by a responsible assistant. This we were told was the practice in Ahmedabad and in most of the upcountry centres we visited and we see no reason why it should not be followed in Bombay. It will be obvious that the acceptance of the recommendation we have made in paragraph 60 above in regard to the maintenance of a reserve to provide for absenteeism would reduce the amount of casual labour required to a minimum.

Fines

64. It is self-evident that greater efficiency can only be obtained from contented labour. The only two textile labour organisations in Bombay, of any size, are the Bombay Textile Labour Union which has a membership of 8,940 and the Girni Kamgar Mahamandal or Mill Workers' Union which has a membership of 3,500. The distinction between these two bodies is that the officers of the latter are themselves all mill workers. As there are over 153,000 mill operatives in Bombay, labour in that city has thus only the rudiments of an organization. Both the Unions presented us with a lengthy list of grievances, the investigation of which would have necessitated a far more detailed examination than we have had time for and would also have been somewhat outside the scope of our enquiry. Most of these grievances could, we think, be remedied to a large extent by closer supervision over jobbers. There was, however, one which is evidently felt very keenly and which in our opinion should be removed immediately and that is in respect of the recoveries which are made for spoilt cloth. It is the practice in many mills to compel a weaver to take over cloth spoilt by defective workmanship the full value of such cloth being recovered from him and credited to the mill. The weaver has then to dispose of the cloth as best he can. We obtained figures from the Millowners' Association on this point and find that in August 1925, the latest date for which figures for all mills are available, the total amount collected in this way was Rs. 8,709-8-7. We may mention that the Bombay mills are not peculiar in this respect and that in one upcountry mill we visited we found that the recoveries for spoilt cloth amounted in one month to over Rs. 4,000. This practice was justified by managing agents on the ground that disciplinary measures are necessary to maintain efficiency and quality. There are many mills which do not adopt the system but merely impose a fine for defective workmanship and we are convinced that it is desirable in the interests of the mills themselves that it should be abolished as the advantage which the mills derive from it is entirely incommensurate with the soreness it causes. As regards the system of fining generally, we may mention that the whole question is at present under the consideration of the Government of India who are investigating the desirability of taking action, legislative or other, to counter any abuses which may be found to prevail. We do not wish to anticipate the results of this enquiry but would record our opinion that any fines levied should not be credited to the mill but should be used in some way for the benefit of the operatives as a body.

Standardisation of wages

65. We cannot regard as satisfactory the present system, under which the wages in the Bombay mill industry vary from mill to mill, even when the managing agents are the same, and would recommend, for the consideration of the Millowners' Association, the adoption of a system of standardised wages for the same class of work as between mill and mill. We realise that the adoption of such a system presents very great difficulties in Indian conditions owing to the illiteracy and imperfect organisation of labour and that its introduction might probably cause discontent among those operatives whose wages might be prejudicially affected. None the less, we think that the standardisation of wages throughout the Bombay industry would tend to strengthen its position. A suitable scheme could, of course, only be satisfactorily drawn up in consultation with representatives of labour. It is obviously preferable that it should be adopted by all mills but if a large proportion of the mills were willing to accept it, it would not be long before the others followed suit.

Housing

66. We received much evidence as to the effect on labour efficiency of the housing conditions in Bombay. The Bombay Millowners' Association were mainly concerned with these in so far as the recent efforts of the Government of Bombay to improve them have resulted in an additional burden on the industry owing to the imposition of a 'town duty' of one rupee per bale of cotton on all cotton entering Bombay. As the consumption of the Bombay mills during the last five years has averaged about 9·7 lakhs of bales per annum, this represents a tax on the industry of Rs. 9·7 lakhs annually. The town duty is levied under the City of Bombay Municipal and Improvement Act XX of 1920 and the object of the levy was primarily to enable the Government to construct 50,000 tenements for the working classes of Bombay and secondarily to carry out certain schemes of improvement and development of Bombay suburban areas. It was also intended to provide funds to enable the Municipal Corporation to carry out various improvement schemes. The Bombay Municipality collects the duty and, after deducting the cost of collection, pays Government four-sevenths of the proceeds and retains three-sevenths.

When the Bill, which subsequently became Bombay Act XX of 1920, was introduced, the cost of 50,000 tenements was roughly estimated as Rs. 5·5 crores. The present position is that 16,544 tenements have been built at an average cost of Rs. 2,084 per tenement and that, of these, 11,484 or 69 per cent. are still empty. Various reasons were assigned for this, among them being difficulties of access, absence of bazaars and the fact that the tenements are built of cement which, it is alleged, makes them too hot in the hot weather and too cold in the cold weather. There can, however, be no doubt that the main reason is the high level of rents hitherto charged for them and the Development Directorate of the Government of Bombay, recognizing this, has recently reduced

the rents to a level which compares very favourably with that of the rents charged by the few mills which have erected tenements for their employees and by private landlords. 2,420 rooms are now available at Rs. 5-8 per room per month and 7,260 at Rs. 6. The Development Directorate further states that, if millowners are willing to take up whole chawls for housing their labour, it is willing to lease chawls to them at rates which would work out at Rs. 4-14-9 per room for 121 out of 207 chawls and at from Rs. 6 to Rs. 8-2-4 for the remainder. The Bombay Millowners' Association informed us that they had not yet received this offer and were not, therefore, in a position to state what their views in regard to it would be. There are, however, two difficulties which arise in regard to its acceptance, the difficulty of ensuring that, if a mill takes over a particular chawl, the rooms will continue to be occupied by its own employees only and the unwillingness of operatives to live in quarters provided by their employers owing to fear of ejectment during a strike or as the result of men falling into displeasure with the mill authorities. Both these objections could, we think, be met to a large extent if chawls were taken over and administered either by a group of mills or by the Millowners' Association as a body.

The acceptance of the arrangement proposed by the Development Directorate would not, however, meet the objection of the Bombay Millowners' Association to the imposition of the town duty of Re. 1 per bale. The Association hold that, as so many of the tenements are empty, the scheme must be regarded as a failure and that there is, therefore, no justification for the continuance of the duty. We are unable to accept this view. The tenements are in existence and the evidence we received confirmed the impression we gained from our own inspection that they are much superior to the majority of those available elsewhere and that the rent charged for them, now that it has been reduced, compares very favourably with that of the latter. It is undoubtedly a matter for great regret that so little advantage has been taken of the chawls, but if the unwillingness of the working classes of Bombay to occupy them can be overcome, it is the mill industry which stands most to gain by the improved housing conditions of its employees. In these circumstances, we cannot regard the continuance of the town duty as inequitable but, at the same time, we cannot overlook the fact that, of the total realisations, more than one-half is utilised for Bombay municipal schemes and suburban development schemes. It does not appear to us equitable that the cotton industry in its present depressed condition should be expected to finance these schemes which are for the benefit of the community in general. We are only concerned with this matter so far as it affects that industry and from that point of view we would recommend that the town duty be reduced to 8 annas per bale on all cotton consumed by the mills. The relief to the mill industry of Rs. 4·8 lakhs per annum which would result from the acceptance of this recommendation would be small but, in the conditions which at present exist in Bombay, it is desirable that even this small measure of help should be given. The consideration whether the duty on all cotton

other than that consumed by the mills should be reduced does not fall within the scope of our enquiry but, if an all-round reduction of the duty is not made, effect can be given to our recommendations by the grant of a refund to the mills on proof of consumption.

Welfare work

67. We were greatly impressed by the difference between the best upcountry mills and the best mills in Bombay in regard to the work which is done for the welfare of their employees. It must be admitted that most upcountry mills are much more favourably situated in this respect than are the mills in Bombay. Direct contact between employer and employee is much easier in upcountry centres than it is in Bombay and, in most cases, ample space is available for the provision of such amenities as créches, hospitals both general and maternity, recreation grounds, schools, canteens and co-operative stores. Our inspections have shown that the most efficient mills in upcountry centres fully realise the effect which the provision of such amenities has on the efficiency and contentment of labour and we consider that it would be in the interests of the Bombay industry to follow their example in this respect. It is unfortunate that more was not done in this direction when the financial position of the mills rendered it possible but, in the present condition of the industry, we recognize that any large expenditure under this head is out of the question. We trust, however, that when conditions improve the mills will regard provision for welfare work as one of the first charges on profits.

Technical education

68. We have insisted throughout this chapter on the necessity for greater efficiency on the part of labour if the Bombay mill industry is to hold its own, not only against the competition of upcountry mills but also against foreign competition. The Victoria Jubilee Technical Institute is doing excellent work in regard to the training of the supervising staff both by its regular courses and by its short courses which are held on Saturday afternoons and are attended by apprentices already at work in the mills. The only suggestion we have to make in regard to these courses is that there should be an alteration in the period of practical training allowed in the regular course. At present the students undergoing this course, which lasts for four years, spend the first six months of their fourth year in a mill and then return to the Institute to complete the course. We do not consider that a six months' practical course is sufficiently long and are of opinion that it would ensure a higher standard of efficiency if it could be arranged that students, during the last two years of the course, should spend alternate days or weeks in a mill and in the Institute. We are further of opinion that more specialisation is desirable and that, after a general training for the first year of the course, the student should devote his whole time to either spinning or weaving. If he wishes to obtain a knowledge of both, he should remain at the Institute for an additional course.

The only technical training for operatives which is at present provided is that which can be obtained in the small textile training school which is maintained by the Social Service League at Parel. This has accommodation for fifty students but at present is attended by not more than twenty or thirty. We cannot too strongly emphasise the necessity for the provision of more facilities for technical education if the efficiency of the mill operative is to be improved within a reasonable period. A beginning should obviously be made with jobbers and those who wish to qualify themselves as such. We, therefore, recommend the early establishment of Trade Schools in two or three convenient centres in Bombay. This is obviously a matter for joint action by Government and the mill industry. The latter, in present conditions, is not, however, in a position to find funds for this purpose and a subsidy towards it might well be given from the funds which would be available if the proposals which the majority of us put forward elsewhere are accepted. We consider that attendance at such schools should be treated as attendance in the mills and that certificates should be issued at the end of the course, the details of which would be worked out by the Department of Industries in consultation with the mill industry.

A number of technical books and pamphlets on all branches of the industry of which he makes good use are available to the cotton mill operative in England. No steps in this direction have so far been taken in India though there are a number of jobbers and operatives who could profit from such pamphlets if they were drawn up in the vernacular on the right lines and contained simple instructions with plentiful illustrations. A pamphlet drawn up for weavers would, for example, contain instructions as to the best methods of setting loom parts, the proper care of healds, reeds and shuttles and so on. Pamphlets of this character have, we believe, been issued by the Department of Industries in Madras for the use of handloom weavers. We would suggest that the matter should be taken up by the Department of Industries in Bombay in consultation with the Bombay and Ahmedabad Millowners' Association and the Principal, Victoria Jubilee Technical Institute, Bombay.

Introduction of automatic looms

69. Among the methods of reducing labour costs in Bombay, which were suggested in the evidence before us, was the introduction on a large scale of automatic looms, the best known of which is the Northrop loom. Experiments with these have been made from time to time in Bombay, Ahmedabad and Sholapur, but the results obtained have not been encouraging and the experiments have been almost entirely abandoned. The only mills in which these looms have been installed on a large scale are two mills in Madras where, it should be noted, the weavers employed on ordinary looms look after one loom only as against two in Bombay. The initial cost of the Northrop loom is very heavy as compared with that of the ordinary loom, and it depreciates more rapidly. The allowance to be made for depreciation on both these grounds is thus higher. The stores and spare parts for it are also more expensive than those needed for the ordinary loom. The additional cost under these heads and under that of

interest on the original capital outlay could only be compensated by higher production, higher prices or a reduction in labour costs. It does not appear that the production of the Northrop loom is higher than that of the ordinary loom or that any higher price can be obtained for the cloth manufactured on it, though it is more uniform in quality than that turned out on the ordinary loom. The reduction in labour costs would depend on the number of looms tended by one weaver. In America, one operative attends to from 20 to 24 of these looms against 8 to 10 ordinary looms, but the result of the experiments so far made with them in India goes to show that it would be difficult to get weavers in Bombay to look after more than four. Even if the number went up to six as in Madras, the statement below shows that the balance of advantage still lies with the ordinary loom. The statement is based on the assumption that the wages of a weaver in Bombay, at present earning Rs. 48 per month for looking after two ordinary looms, would be Rs. 65 per month for looking after six Northrop looms :—

102 Northrop looms	Rs.	102 plain looms	Rs.
Wages—17 weavers at Rs. 65 per month	1,105	51 weavers at Rs. 48 each ..	2,448
16 assistants at Rs. 30 ..	480		
Stores—Extra stores at Rs. 3-8-0 per loom	357		
Depreciation at 7½ per cent. on £ 8160 at Rs. 13-8-0 ..	688	Depreciation on one-third the cost of the Northrop looms, *viz.*, £2720 at 5 per cent. ..	153
Additional expert supervision required	150		
	2,780		2,601
Interest on initial outlay at 8 per cent.	734		245
Total ..	3,514		2,846

It should further be mentioned that the introduction of the Northrop loom would necessitate the use of stronger warp yarn as well as the winding of the yarn used for weft on special pirns. For a stronger warp yarn, a better quality of cotton would be required and an increase in the cost of cotton by Rs. 10 per candy would increase the cost of manufacture of yarn by about three pies per pound. The cost of winding the yarn used for weft would work out at about four pies per pound. No allowance has been made for this additional cost in the statement above. It will, we think, be clear that, although Northrop looms have been adopted with great success in other parts of the world, in present conditions no solution of the problem presented by labour costs in Bombay lies in the introduction of the Northrop loom.

Experiments are at present being made in Bombay with the Whittaker attachment for converting the ordinary loom into an automatic loom but these have not progressed far enough to enable us to report on them. It seems, however, probable that it is in this direction that any advance in the introduction of automatic looms is to be looked for since the capital outlay consists merely in the cost of the attachment and the

expenditure involved is thus much less than that involved in the installation of such looms as the Northrop. We are, therefore, of opinion that the experiments which are being made with these attachments should be continued. Given regular yarn, one weaver should be able to attend to six looms when engaged on the production of longcloth, shirtings and sheetings but it should be mentioned that neither the automatic loom nor the ordinary loom with the automatic attachment can be used for the production of dhotis or saris owing to the large number of headings required.

Double shift working

70. We have carefully considered the question whether the introduction of double shift work in Bombay would be of assistance to the Bombay mill industry in its present difficulties. Double shift working, when only adult males are employed, is open to no objection but, at present, the system is in force in India only in two comparatively small mills, one in Ahmedabad and one in Bombay, neither of which is a member of the Millowners' Associations in those centres. The Bombay Millowners' Association hold that it is not possible to adopt the system in Bombay owing to the aversion of labour from night work and the prohibition of the employment of female labour at night in this country. Neither of these obstacles is insuperable. Female labour is employed in India on a comparatively small scale and, in Bombay to a greater extent than in Ahmedabad, women are employed in certain departments of the mill only such as winding and reeling. If double shift working were adopted, it would, therefore, be possible to arrange the work of the mill so that the absence of women at night would not materially interfere with it. A far more serious objection to double shift working than either of those advanced by the Bombay Millowners' Association is the extent to which the presence of the additional labour force required would increase congestion in an already very congested city. Any action which would tend to accentuate still further the problems presented by the unsatisfactory conditions under which Bombay labour is housed is much to be deprecated and we are strongly of opinion that, from every point of view, Bombay is a most unsuitable centre for the adoption of the double shift system.

Labour in general

71. In the course of an enquiry such as ours, the urgency of the problems presented by the illiteracy of Indian labour could hardly fail to be borne in upon us. We should be failing in our duty if we did not emphasise the need not only for primary and technical education but also for adult education if labour is to produce from its own ranks leaders who can speak with knowledge and authority on its behalf. These and other problems relating to labour call for a more comprehensive enquiry than the limits of our terms of reference permit.

(f) Overhead charges

Taxes

72. The figures we have given in our examination of the costs of production statements have shown that Bombay is at a marked disadvantage

as compared with Ahmedabad and other centres in regard to local taxation. This forms a comparatively small item in mill expenditure but we need hardly point out that the cumulative effect of items such as this is to intensify the unfavourable position of the Bombay mills. We have already dealt with the charge for water which can hardly be regarded as a tax and also the town duty of one rupee per bale of cotton which is levied on all cotton entering Bombay. There does not appear to be any further scope for economies under this head or any method of reducing the handicap that the Bombay mill industry suffers in this respect.

One point which has been brought to our notice in this connexion is that there are ten mills in Bombay which hold lands from Government on what is known as 'toka' tenure. These lands were assessed at a nominal rate of one pie per square yard per annum in 1879 for a period of fifty years and, therefore, become liable to reassessment in 1929. The Millowners' Association state that, from correspondence which has passed between some of the mills affected and the Government of Bombay, it would appear to be the intention of the latter to increase the assessment on these lands from a total of Rs. 573 to one of Rs. 1,12,770. It would obviously be beyond our province to examine the equity of the rates which are stated to be under the consideration of the Government of Bombay and we, therefore, confine ourselves to suggesting for the consideration of that Government the desirability, in the present conditions of the Bombay industry, of imposing any heavy additional assessment in graduated stages.

Insurance

73. Although it would appear from our examination of the costs of production that the charges for insurance in Bombay work out at a higher rate than those for Ahmedabad, but at a lower rate than those for upcountry centres, Bombay is in reality at a slight advantage in this respect even over Ahmedabad. This is due to the fact that the rates for all mills which are equipped with an approved sprinkler installation are lower for Bombay mills than for upcountry mills since one-tenth of the saving to the upcountry mill, owing to its being rated on the Bombay tariff, is collected from the latter to meet the travelling and other expenses of the inspectors employed by the fire insurance companies. The rates for upcountry mills which have no sprinkler installation are higher than they would be in Bombay where, however, all mills have such an installation. The higher charges for insurance in Bombay as compared with Ahmedabad would, as we have mentioned in Chapter VIII, seem to be due to the more substantial character and greater cost of the buildings and the necessity for insuring the higher stocks of yarn and cloth carried by the Bombay mills. We have in paragraph 41 above pointed out the objections to the present system, under which many managing agents are also agents to fire insurance companies, their operations in this direction being, however, confined to the mills for which they are agents. These objections would be removed and the charges under this head might be reduced if the mills were to undertake their own fire insurance. The Bombay Millowners' Association, as a body, has undertaken insurance

under the Workmen's Compensation Act for its members and the scheme is reported to be working very successfully. We would suggest to the Association the possibility of a similar scheme for fire insurance. The obstacle to the successful working of such a scheme is said to be the difficulty of reinsuring risks but it does not appear that this is insuperable.

Salaries of technical and supervising staff

74. There does not appear to us to be much room for economy under the head of technical and supervising staff. Our examination of the costs of production statements has shown that Bombay is at no disadvantage as compared with Ahmedabad and other upcountry centres in this respect and it will be obvious that, if greater efficiency of labour is to be secured, more rather than less supervision is required. Very little evidence was forthcoming before us in regard to the ways, if any, in which the efficiency of the technical and supervising staff could be improved but it would seem eminently desirable that proper training should be insisted on in all cases and that students who have passed through the Victoria Jubilee Technical Institute should as a general rule, especially if the period of practical training is extended to two years as suggested in paragraph 68, be preferred to those who have merely picked up as apprentices what training they can in a mill.

Depreciation

75. Both the Bombay and Ahmedabad Millowners' Associations expressed the view that depreciation should be reckoned as a charge on production but the practice in neither centre appears to be in accordance with this view. We were informed that, in Ahmedabad, the full allowance is always made for depreciation before the profit balance is struck, in other words that depreciation is a first charge on profits, but a study of the Ahmedabad mills shows that this does not hold good generally. Examination of the balance sheets of the Bombay mills shows that no uniform system is followed in this respect, that a year of high profits is frequently awaited to enable arrears of depreciation to be made good and that, even in years when profits would have admitted the full allowances to be placed to depreciation, there are surprising differences in the amounts actually so placed. As an illustration of what is meant may be cited the case of a Bombay mill which, in 1920, when its profits were at their highest placed only Rs 62,000 to depreciation out of a total profit of Rs. 15·38 lakhs but found it necessary, in 1923, out of a total profit of only Rs. 1·85 lakhs to place Rs. 1·38 lakhs to depreciation. We have already commented on the foresight shown by the Japanese mills in this respect and are of opinion that the Bombay mill industry would be in a stronger position if a more consistent policy had been followed in regard to the amounts written off to depreciation. If depreciation were regarded as a charge on production, this would mean the revision of the system of remuneration of managing agents in Bombay where the commission is based on the gross profits before allowance is made for depreciation. If the commission were based on profits

after allowing for depreciation, it would be necessary to revise the percentage in order to allow of a reasonable rate of remuneration and this would necessitate a wholesale revision of managing agency agreements. We do not consider this step is called for but are strongly of opinion that depreciation, including any amount which may be in arrears, should invariably be regarded as a first charge on profits. We have considered the question whether this principle should be embodied in the legislation which will be necessary if the proposals we subsequently make for the grant of protection to the industry are accepted but, in view of the limited character and duration of the protection we propose, this does not appear called for.

In this connexion, it seems desirable to remove a misapprehension which we found existing in regard to income tax on arrears of depreciation. We were informed that rebate of income tax was not granted on any amount placed to depreciation in a particular year in excess of the normal 2½ per cent. on cost of buildings and 5 per cent. on machinery when such an amount represented arrears of depreciation carried forward from previous years. This is not the case and, since the passing of the Income Tax Act XI, of 1922, the position is that, in addition to the amount allowable on the basis of the year under assessment, accumulated arrears of depreciation due for years subsequent to 1922 may be added to the amount claimed for depreciation in a particular year and allowed for, even if the amount of the arrears is not actually adjusted in the accounts of the assessee in that year, provided, of course, that no rebate of income tax on this amount has been previously given. As regards accumulated arrears of depreciation for years prior to the passing of Act XI, of 1922, these too are allowed provided the amount so claimed has been adjusted in the accounts (as required under the provisions of the Act of 1918) in addition to the total depreciation allowable for years subsequent to the passing of the above Act.

Audit

76 Objection was taken in evidence before us to the character of the audit of cotton mills, more especially to that of the Ahmedabad mills. The evidence we received showed that mill stocks and stores are almost always valued at either market rate or cost price whichever is less and we received no evidence to show that any mill has changed its system at any time in order to give a better appearance to its balance sheet. A full description of the methods of audit adopted by the Bombay mills will be found in the evidence of Messrs. A. F. Ferguson and Co., the Chartered Accountants who audit a large number of them, and it does not seem that there is any room for improvement in this respect except that, in our view, all mills should adopt the system now followed by the majority of them and should have their stock checked by the auditors. This system is not adopted by the Ahmedabad mills where audit generally does not appear to us to be carried out so satisfactorily as it is in Bombay, the fees paid for it in very many instances being on a much lower scale than those in Bombay and the number and qualifications of the staff which the auditor is able to

employ, being on a corresponding scale. We found that the audit of twenty mills in that centre was carried out by one auditor who has a staff of two clerks only. A further objection taken to the character of the audit in Ahmedabad was that it is, in some cases, carried out by an auditor who is related to the managing agents of the mills, the accounts of which are under audit. We received evidence that this was so in the case of five mills. The objections to the employment of an auditor who is related to a managing agent are so obvious that they need not be enlarged upon and we are strongly of opinion that the Ahmedabad mill industry would be well advised to discontinue such employment where it obtains.

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CHAPTER X

REMEDIAL MEASURES

II—Improvements in organisation

(*a*) *Organisation of the Bombay Millowners' Association*

77. The Bombay Millowners' Association, as we have had special opportunities for discovering in the course of our enquiry, has an excellent organisation for the collection of statistical and other information. We have mentioned one important respect in which the Association have failed to make full use of this organisation, and are strongly of opinion that they should, in their own interests, take immediate steps to obtain a full range of samples and to maintain a record of prices of all imported cotton manufactures which compete with Indian goods. The corporate action of the Association has hitherto been confined in the main to action in regard to labour questions and representations such as that submitted to us. In this respect their position is different from that of the Japan Cotton Spinners' Association, the most important function of which is that of controlling on behalf of its member companies the imports of raw cotton from India and of arranging freights thereon with the steamer companies interested. The Bombay Millowners' Association have hitherto done nothing in such directions as this and we are convinced that some alteration in its organisation is required if the Bombay mill industry is to hold its own. Elsewhere we have shown what the loss of the China trade in yarn has meant to Bombay and how essential it is that in order to compensate for this the Bombay mill industry should endeavour to expand its foreign markets. The Bombay mill industry, unlike the Japanese, is at present in no position to take any combined action in this respect or to bring any pressure to bear on steamship companies either in regard to cotton imported or manufactures exported. We are convinced that closer attention to detail on the part of the Millowners' Association is called for. We would, therefore, suggest the constitution of a number of working sub-committees. The greatest need is obviously for a strong sub-committee which would deal with all questions relating to the development of the export trade and would work in the closest touch with the Trade Commissioners whose appointment we suggest in Chapter XII. There should also be sub-committees to deal with questions relating to the home market, finance, labour, registration of labels and numbers, the supply of raw material and lastly the woollen mills which are not unimportant members of the Association. We would suggest that these sub-committees should meet weekly for the transaction of business.

(*b*) *Registration of trade marks and numbers*

78. During our visits to the principal consuming centres in India, complaints were frequently made to us that the quality of particular lines of Indian piece-goods is not maintained at the same level and our investigation showed that there was considerable justification

for these complaints and that goods bearing the same number and trade mark have in some cases showed a marked reduction in quality from year to year even when made by the same mill. This reduction is sometimes secured by a reduction in the number of ends or picks per inch, sometimes by an alteration in the counts of yarn used and sometimes by an alteration in either width or length but, as a general rule, the reduction in weight has been brought about by a combination of two or more of these methods. We would give two examples which came under our notice by way of illustration, that of susi checks which are made by a number of mills and placed on the market with the number 2424, and that of bleached striped shirting which is also produced by a number of mills and placed on the market with the number 999. We understand that the susi checks, as originally made, were 24 inches by 24 yards in dimensions and weighed four pounds per piece, but that the dimensions of the quality now placed on the market are only 22 inches by 24 yards and that the weight has been reduced to three pounds. Similarly the dimensions of 999 bleached striped shirting were originally 27 inches by 24 yards and the weight six pounds per piece, whereas the dimensions of the quality now sold are 24 to 25 inches by 24 yards and the weight only 3½ pounds. Our enquiries showed that what has happened in these and similar cases is that commission agents, in order to compete with goods already well established in the market, have obtained from the mills for which they act similar goods but of slightly lower quality which they have placed on the market at a lower rate. The mill which was the first to manufacture the particular quality lowers its quality to enable it to hold its own and so the process goes on. We are convinced that this practice has reacted to the disadvantage of all concerned and has prejudicially affected the reputation of Indian piece-goods. The Bombay Millowners' Association did not consider that any action was called for in this respect and held that any legislation on the subject would give rise to great difficulties owing to the large range of numbers already in existence. Their system of registration of labels has, however, proved very successful. Under that system, labels are registered by the Association and no member is permitted to use a label registered by another member. Registration is not made until all members have been given an opportunity to object. We can see no insuperable difficulty in adopting a similar system in regard to the registration of numbers. This would seem a matter for combined action by the Bombay and Ahmedabad Millowners' Associations and Chambers of Commerce, but the better plan, in our view, would be for action to be undertaken by the Bombay Millowners' Association on behalf of the cotton mill industry of India. The object would be the maintenance of the quality of cloth sold under a particular number and the system should, in our view, provide for the allocation of numbers to all mills and penalties for infringement of the rules drawn up. Each mill would be allotted definite numbers and no other mill would be permitted to use any number within this range. This would ensure that any mill putting a new quality of cloth on the market under a particular number would be protected against the use of that number by any other mill.

We would repeat that we regard it as most desirable, in the interests of the industry, that action of this kind should be taken.

(c) Changes in the managing agency system

79. In our examination of the managing agency system, we have pointed out that any pressure in the direction of an alteration from the system of managing agents to that of managing directors can only come from the industry concerned. That is equally true of pressure in the direction of alteration in the details of the managing agency system, for example. an alteration from the system of remuneration by commission on production or sales to that of commission on profits, a system which we have given reasons for preferring in the interests of efficiency. The choice of directors is again a matter which rests with the shareholders. We have pointed out how few of the directors of the Bombay mills have any technical qualifications for appointment and we have no reason to believe that Bombay is peculiar in this respect. The absence of such qualifications among directors is merely a reflection of its absence among managing agents for the directorates of the Bombay mills are very largely composed of members of firms of managing agents. We consider it most desirable that at least one member of each firm of managing agents should have received technical training. This would provide a nucleus of directors with technical qualifications and would place the industry in a better position to meet the criticisms which have, as we think, with considerable justification been levelled against it on the score of their absence and on the ground of the hereditary character of the managing agency.

We may here conveniently record our view that the system under which, in some instances, the surplus funds of mills in Ahmedabad are invested with firms of shroffs which are identical with the firm of managing agents of the mill is an undesirable one as is that of investing such funds with firms of shroffs who publish no balance sheets. We consider that the Ahmedabad mill industry would be well advised to follow the ordinary banking practice. We are further of opinion that it is undesirable that the funds of one concern should be lent to another concern under the same managing agency. We do not, however, consider that, as was suggested to us by some witnesses, legislation is called for in these respects.

(d) Writing down of capital

80. We have, in Chapter VI above, commented on the extent to which there was overcapitalisation in the mill industry both in Bombay and elsewhere during the boom period. We have there pointed out that, whilst overcapitalisation cannot be regarded as a cause of depression, it undoubtedly tends to accentuate it. It follows, therefore, that, where there is overcapitalisation, a drastic writing down of capital is required to meet altered conditions. Until very recently little had been done in this direction in the Bombay mill industry. Of the Bombay mills shown in the statements on pages 77-79, the capital of

the Assur Veerjee, Gold Mohur and Kasturchand Mills has been drastically reconstructed, that of the Bombay Industrial Mills has been reduced by Rs. 10 lakhs to Rs. 9,98,750 and proposals for the reduction of the capital of the E. D. Sassoon United Mills from Rs. 6 crores to Rs. 2·5 crores have been placed before the shareholders. The Diamond Mill has been bought by the Japanese and the capital is now returned at Rs. 20 lakhs. We are, for obvious reasons, not in a position to make specific recommendations on this head and can only record our opinion that the matter is one which requires the further attention of the industry.

(e) *Diversification of production*

(i) *Spinning of higher counts of yarn*

81. We have in the preceding chapter laid stress on the necessity for economies in production in Bombay if that centre is to strengthen its position not only against foreign competition, but also against the increasing competition of the mills in Ahmedabad and other upcountry centres. No economies in production will be of any avail unless the article produced is readily saleable. In our examination of the causes of the depression, we have stated our reasons for holding that greater attention to diversification of production would have mitigated the severity of the depression in Bombay. We have there pointed out the high proportion that the production of longcloth and shirtings in Bombay bears to the total production of India and the very small proportion of the total output which consists of dhotis or of bleached goods. We have further shown that there has been little or no change in the quality of the goods produced by the Bombay mills in recent years and that Bombay, in spite of the advantages which its greater humidity of climate gives it over other centres in India in this respect, has continued, in the main, to confine its attention to goods made from the coarser counts of yarn in which it meets the full force of the competition of upcountry mills. We have stated our view that in its adherence to the coarser counts as compared with Ahmedabad is to be found one reason why conditions in Bombay have been less favourable than in Ahmedabad. In these circumstances, we cannot but hold that one of the remedies for the present depression is to be found in some alteration in the character of production in Bombay. We consider that it is essential that Bombay should utilise to the full the natural advantages it possesses in the matter of climate and of its situation in respect of imports of American or African cotton for the production of goods of higher quality than it has done in the past, that it should devote much less attention than it has done to the production of grey goods, more especially of grey longcloth and shirtings, and that it should embark on a much larger production of bleached and coloured, printed and dyed goods. In making a recommendation that the Bombay mills should produce a higher quality of goods, we do not overlook the disadvantages in regard to which those mills, in common with all Indian mills, suffer from the lack of suitable raw material. The Indian Central Cotton Committee estimate that of the total production

of Indian cotton only 320,000 bales or 16 per cent. of the cotton of staple of $\frac{7}{8}$ths inch and over are suitable for warp yarn of counts from 30s to 36s, with an additional 60,000 bales suitable for weft yarn of over 36s counts, whereas the total amount of cotton consumed by Indian mills averages slightly over 2 million bales annually. We have no means of ascertaining how much of the long staple cotton grown in India is exported, but it will be seen from the list supplied by the Indian Central Cotton Committee, which we reproduce as Appendix XIII, that two-thirds of the long staple Indian cotton suitable for spinning warp yarn of 30s to 36s counts is made up of Broach and Cambodia cotton, the estimated figures of the crops of which for 1925-26 were 127 and 113 thousand bales respectively. The greater part of the Broach crop is undoubtedly used in Indian mills and Ahmedabad has a slight advantage in respect of it. In regard to Cambodia, both Bombay and Ahmedabad are at a very marked disadvantage as compared with the mills in the south of India and their advantage over Japan is not very striking, the freight from Tuticorin to Japan being Rs. 6-4-0 per bale against Rs. 3-2-0 from Tuticorin to Bombay. During the year 1924-25, 139,232 bales of cotton were exported from Tuticorin and 68,837 bales from Madras. A large proportion of this cotton may be presumed to have been either Cambodia or *karunganni*—two of the varieties of Indian cotton most suitable for the spinning of higher counts.

It cannot, however, be overlooked that there is no special reason for regarding 30s as a dividing line and that, even in respect of counts below 30s, the Bombay mills should be able to produce more cloth from yarn between 24s and 30s counts than they are doing at present. A most important consideration is that the Bombay mills are at no disadvantage as compared with the Japanese mills in respect of supplies of cotton whether of counts over or under 30s since, as we have pointed out, they have the advantage of proximity in regard to supplies of Indian cotton and the freight on American cotton from the Gulf ports to both countries is the same. The greater strength and uniformity of Japanese yarn and the superior quality and appearance of Japanese cloth as compared with Indian cloth with which we were greatly struck in the course of our enquiries and which, in combination with the price at which they are sold, renders them more attractive to the Indian consumer must be attributed to the better mixings of cotton used in Japan which are due to the greater use of American cotton in that country. The usual practice of the Japanese mills in regard to the cotton used for the various counts is shown below :—

Counts	Kinds of cotton generally used
10s and under ..	. Generally speaking, low grade Indian cotton only, but sometimes with an admixture of Chinese cotton, though the latter is more generally used, if at all, during the winter months, when it is more easily procurable.

Counts	Kinds of cotton generally used
11s to 20s . .	. . Indian cotton, such as Broach, but with an admixture of American cotton (middling) up to a maximum of about 20 per cent.
21s to 30s . .	. . Principally Indian cotton for coarser counts with an increasing, but varying, proportion of American cotton (middling or strict middling); for finer counts chiefly American cotton, sometimes up to 100 per cent. in the case of 30s.
32s to 42s . .	. . Principally American cotton (strict or good middling) but with a varying and decreasing proportion of other cottons.
60s . .	. . Egyptian about 80 per cent. and the balance American (good middling).
Finer counts . .	. . Egyptian Cotton.

We are of opinion that it would be to the advantage of the Bombay mill industry to follow the example of the Japanese industry and to make a more extensive use of African and American cotton in order to enable it to place on the market qualities of cloth superior to those it is at present manufacturing. Bombay is specially favourably situated in regard to the import of African cotton though the advantage it has in this respect over Japan, to which in 1923-24 and 1924-25 more than half the imports of East African cotton into Bombay were re-exported, has been materially reduced by the recent inauguration of a direct service between Osaka and Mombasa. The net imports of African cotton into Bombay in the last three years have been 15,805, 18,479 and 68,863 bales respectively, so that there was a marked advance in the use of this cotton in 1925-26. We have been unable to ascertain definitely how large a proportion of the East African cotton imported is taken by the Bombay and Ahmedabad mills respectively, but our enquiries showed that it is probable that Ahmedabad uses more of it than Bombay. It should be mentioned that the East African cotton crop ranks amongst the world's smaller crops though it is increasing with some rapidity, the estimated crop for 1925 being 300,000 bales against 96,000 bales in 1921. As regards American cotton, it would seem at first sight that our recommendations in this regard have already been anticipated by the very large imports of American cotton which are at present coming into Bombay, but we understand that the greater part of these are of low grade cotton which is not suitable for counts over 30s.

It may be objected that, in making this recommendation, we are proposing that the Bombay mill industry should devote greater attention to the counts of yarn and the varieties of piecegoods in which the

competition of Japanese goods is specially keen. The present position is that its natural development is hampered by unfair foreign competition and this strengthens the case for assistance to enable it to meet that competition. Our recommendations must, therefore, be regarded as a whole. The measure of protection we suggest at a later stage, combined with the economies in production and the improvements in organisation which we also recommend, should place it in a stronger position to meet competition in yarn and cloth of counts higher than it is at present producing.

It was represented to us that one obstacle to the greater use of American cotton is the heavy charges which are levied on the fumigation of this cotton in order to prevent the entry of the boll weevil into this country. These amount to Rs. 3-6-0 per bale in the dry season and Rs. 4-14-0 in the monsoon and in a year when imports are heavy, as they are this year, involve a very heavy charge on the industry. We deal with this point separately in Chapter XII.

(*ii*) *Establishment of a combined bleaching, dyeing and printing factory*

82. We have shown that there is very good reason to believe that Bombay is much behind Ahmedabad in respect of bleached goods and that, whilst it is still well ahead of the rest of India in regard to coloured goods, the latter is rapidly gaining on it in this respect, We have further shown that an advance in the production of these goods would enable the Bombay mill goods to reach the very large consuming markets in the north of India to which they have at present a very restricted entry. Separate figures are not available in regard to the production of printed goods, of coloured goods, that is goods made from dyed yarn, and of dyed goods, that is goods dyed in the piece, but the evidence shows that the production of printed goods in India is at present negligible. We were informed that the main reason for this is the very heavy cost of the plant required; an important part of which consists of copper rollers which are required in large numbers, are very expensive and need to be frequently re-engraved and renewed.

While we consider that in a great expansion in the Bombay mill production of bleached, coloured, dyed and printed goods, more especially of bleached and printed goods, lies one remedy for the depression in the industry in Bombay, we fully realise the obstacles which stand in the way of such a development especially in the present condition of the industry. This expansion can only prove successful if operations are undertaken on a large scale and the overhead charges involved in the establishment of a large factory for bleaching, dyeing and printing would be so heavy that no single mill could embark on such a scheme. It is, therefore, a matter which can only be dealt with by a combination of mills. We understand that a scheme for a factory was considered by a syndicate of Bombay mills two or three years ago but was abandoned. We are strongly of opinion that its feasibility should again be examined as we are convinced that the position of the Bombay mill industry is such as to make development in this direction imperative. The advantages of large scale operations are that they

would enable the Bombay mill industry to develop on the lines which in the past contributed so much to the building up of the Lancashire industry, a very striking feature of which was the extent to which merchants with a special knowledge of foreign markets settled in Lancashire because they were there able to get goods bleached, dyed, printed, finished and made up in the manner most suited to the markets for which they catered. The merchant who wishes to export Indian goods to a foreign market has no opportunities of this character and any further manufacturing processes he wishes carried out can only be undertaken by the mill from which he buys the cloth and then only to a limited extent. Large scale operations in bleaching, dyeing and printing would, therefore, assist the Bombay mill industry not only to take advantage of the large demand in the home market for this class of goods but also to develop its export trade.

Printing is a long established industry not only in the industrially advanced western countries but also in Japan, Russia, Mexico and Brazil and, if it has proved practicable to start and develop it in such countries as Mexico and Brazil, the difficulties in doing so in India cannot, in our view, be insurmountable. At the outset, the importation of skilled European supervision to train Indian labour in the intricacies of the industry would be necessary. The high cost of supervision becomes relatively less important as the size of a factory increases and it is for this reason that the capacity of such a factory as we have in contemplation should be reasonably large and commensurate with the minimum cost of skilled labour which would be required. We, therefore, consider that, in addition to printing, the proposed factory should be equipped with machinery for the production of dyed, bleached and finished goods as the overhead charges would thus be distributed over a very much larger total output than would be the case if printing only were considered.

It may be useful to give a more precise indication of the nature of the scheme we have in view. We have been informed that a suitable outturn for a factory of this character would be about thirty-five tons per day which would consist approximately of five tons of printed goods, ten tons of dyed goods and twenty tons of bleached goods. This output corresponds to an approximate total of 100 million yards per annum of which approximately 15 million yards would consist of printed goods. The total output of grey and bleached piecegoods in Bombay in 1925-26 was 566 million yards of which about 67 million yards consisted of bleached goods. The factory would therefore be capable of dealing with about one-fifth of the total Bombay production of grey goods. The total imports of printed goods into India in 1925-26 were 166·9 million yards which, for all practical purposes, may be taken to represent the total consumption of goods printed in mills as the output of such goods in India itself is negligible, only one mill, so far as we are aware, having a small printing plant. There is a certain amount of hand printing, for which Japanese cloth is preferred to Indian cloth, but we have no information as to its extent.

The printing section of the factory would consist of six machines to deal with the classes of goods ordinarily consumed in India including saris. The dyeing plant would be laid out for the production of considerable quantities of sulphur dyed goods together with goods dyed with a variety of other standard shades. The bleaching section would be laid out to deal with ordinary Indian lines such as sheetings, saris and dhotis.

Mr. A. C. Coubrough, C.B.E., who has very extensive experience of this class of factory, has been good enough to furnish us with an approximate estimate of its cost. He estimates the capital expenditure on machinery alone at about £200,000 or approximately Rs. 25 lakhs and the additional cost involved in buildings, arrangements for steam and water and other accessories at another Rs. 25 lakhs, bringing the total cost up to about Rs. 50 lakhs. He places the minimum area required for buildings at 300,000 square feet and for the factory compound at 500,000 square feet; the power necessary for driving the factory at about 1,500 H. P. and the amount of steam required at about 90,000 pounds of steam per hour corresponding to a consumption of approximately 70 tons of coal per day.

It will, of course, be realised that figures such as these are only approximations as the details of a scheme of this character can only be worked out after a decision as to the exact character and quantity of the goods to be produced has been reached. They give, however, a sufficient indication of the approximate capital which would be required. We would again emphasise that an attempt to start an industry of this character on a smaller scale than that suggested above would be to court disaster owing to the inability of a small plant to produce goods in sufficient quantity to enable the gross profits obtained therefrom to meet the overhead charges which would be involved in an enterprise of this description. We would point out that a factory on the scale we suggest would be only a small beginning compared with what has been done in other parts of the world. Some of the print factories now working in Russia have as many as twenty printing machines, which means that they are capable of turning out about four times as large a quantity of printed goods as the proposed factory for Bombay.

A technical point which should be mentioned in connexion with the production of dyed and printed goods is that in recent years considerable progress has been made in the manufacture of colours. In the pre-war period, one of the difficulties which had to be faced in India arose from the fact that dyes such as "para red" were unsuitable for use in the climatic conditions of Bombay. Such dyes can now be satisfactorily replaced by dyes in which diazotized compounds enter and the naphthol colours obtainable in this manner can be used satisfactorily in any temperature and give stable colours.

As we have mentioned, one objection to the establishment of a factory for printed goods which was raised in evidence before us was the heavy cost of the copper rollers which are an essential part of the plant required for calico printing as these rollers are engraved with the designs which

are subsequently transferred in colour to the cloth. Each colour embodied in any particular design requires a separate roller. The number of colours in a design varies from a single colour to twelve or even fourteen colours when the design is an elaborate one. The factory for printed goods such as is now under consideration would, however, not attempt the printing of more than six colours and the bulk of its output would be of two or three colour prints.

In the early days of calico printing machinery, the rollers used in the printing machine consisted of solid copper cylinders. Each roller carried its own portion of a pattern and, if a new pattern was required, a complete new set of rollers had to be purchased. This meant that a stock of hundreds of rollers had to be kept in each print works, the capital cost of which was a very large item in the total cost of the factory. Further, until recent years the engraving of rollers was done entirely by hand. The number of men skilled in the engraving of rollers was very limited and the bulk of the engraving of rollers even for the print works in Great Britain was done outside the print works themselves. There has, however, recently been a radical change in this branch of the calico printing industry. Solid copper rollers have been replaced by cast iron rollers which are electroplated with copper of sufficient thickness to take the engraving. This change has not only very greatly reduced the cost of each roller but has also materially reduced the total number of rollers which have to be kept in stock. When a design is no longer required, it is removed by turning off the surface of the roller which is then replated to its original diameter and is re-engraved with the new pattern. The method of engraving has also undergone considerable change. Reliance is no longer placed on purely hand work and consequently on the skill of the engraver. Mechanical processes are now employed for transferring a design to the surface of the copper roller. Engraving machinery is comparatively simple to operate as designs are now produced and multiplied by the use of pentagraph machines. In some cases, photography is also used to transfer a design to a roller which is afterwards either etched by acid or line-graved in a machine. Engraving and electroplating are both arts which are understood in India and the making of designs is an art which is probably as old in India as in any part of the world. In these circumstances, the view that the cost and difficulty of obtaining an adequate and suitable supply of engraved rollers is an insuperable obstacle to the establishment of a printing works in India is no longer based on substantial foundations.

It was also mentioned in evidence before us that a factory such as that proposed could not be operated economically owing to the limited demand for any particular style of print. We would point out that there are print works in the United Kingdom at present which are of much the same size as that proposed for India and yet work on goods which are intended solely for the Indian market and that the total output of the factory would represent rather less than one-tenth of the total imports of printed goods. There are undoubtedly many designs which would be beyond the first Indian print works owing to the limited number of its

machines but, on the other hand, there are a large number of simple designs which are used in such quantities year after year as to provide ample scope for economical production in India. Further, as we have shown above, the advances in the roller manufacturing and roller engraving industries have made it possible to alter designs without incurring inordinate capital or revenue expenditure.

The development of the printing industry in India is thus no longer faced with technical difficulties which can be regarded as serious. The main obstacle is now one of finance and in Chapter XII we make certain suggestions in regard to the State aid in this direction which might be given if a satisfactory scheme is put forward by the Bombay millowners. One objection which may be raised to our proposal is that the bleached and dyed goods produced by the factory we contemplate would enter into competition with the present Bombay production of these goods. From the point of view of bleached goods, this objection is not, in our view, a serious one owing to the small percentage bleached goods bear to the total production of Bombay and the desirability that this should be largely increased in the interests of the industry as a whole. From the point of view of dyed goods which form rather more than one-third of the total Bombay production, the objection is entitled to more serious consideration. Whilst a dye house is an essential part of the plant, the proportion of bleached, dyed and printed goods could easily be adjusted to meet the views of the industry. The objection might possibly be overcome to some extent by the transfer of existing bleaching and dyeing machinery to the new factory. In the event of such a transfer it is obvious that use will have to be found for the buildings thus vacated. One use to which they might be put is for the installation of advanced weaving machinery.

We are not in a position to make a definite recommendation in regard to the most suitable location for a factory of the nature we propose, but there would seem to be great advantages in placing it outside Bombay and the possibilities of the Bombay Development Department site at Ambernath where ample and unfailing supplies of water from the hydro-electric generating station are available would seem well worth examination. The high power cables of the Andhra Valley Power Company pass through this area and electric power should, therefore, be available at a reasonable rate, provided the quantity required proves sufficient to warrant the installation of suitable transformers. A factory on this site would be at some disadvantage in regard to transport charges, but these would be far more than counterbalanced by its lower charges in every other direction, such as cost of land and buildings, lower local taxation and lower charges for water, the latter of which is a most important consideration in this connexion. These, however, are obviously points which require more detailed examination than we have been able to give them.

(f) Improvement in quality

83. Closely connected with the question of diversification of production is that of quality. It would seem so obvious as not to require emphasis that in the maintenance of quality lies one of the secrets of

successful competition, but evidence we received showed that this was not recognised by all Indian mills to the extent that it should be. As we have already mentioned, we received fewer complaints in respect of Bombay goods than of those manufactured in Ahmedabad, but there is reason to believe that in Indian mills generally efforts are made to spin a finer count of yarn than the quality of the cotton justifies, the result of which is inferior yarn and cloth. The quality of Indian yarn, more especially that manufactured in Ahmedabad, was compared very unfavourably with that of Japanese yarn by some witnesses who also complained that some Indian mills did not supply full length. Instances were given of 18s yarn being supplied as 20s with the consequence that the length was reduced to make up for the coarser count. This practice appears to have led to the stamping of double numbers. It was, for example, stated that yarn from Ahmedabad stamped as 28/40s was being placed on the market. The representatives of the Ahmedabad Millowners' Association admitted that, in some instances, 28s yarn had been placed on the market in bundles of 40 knots but explained that this was done at the request of the merchants and that, although the yarn was marked as 28/40s the price realized was that for 28s only. They considered that marking in this manner made it perfectly clear what the count actually was but we were told that the supply of 28s yarn in bundles of 40 knots facilitates its being passed off as 40s. The practice is obviously undesirable and should, in our view, be discontinued. In regard to the quality of cloth, we found in the course of our inspection of the mills in different centres that the degree of examination to which it was subjected in the folding department varied greatly. Some mills had a lower standard for rejection than others. More careful supervision in this respect would obviously greatly reduce the number of complaints on the score of quality.

(*g*) *Methods of sale*

84. In the course of our examination of the question of the extent to which the mills in Bombay are in touch with the great upcountry consuming centres, we received very conflicting evidence as to the relative advantages of the methods of sale adopted by the Indian mills. The most common method, as we have already explained, is that of sale through a commission agent who guarantees the solvency of the actual buyer. A few mills have their own selling organisation, that is they have established a number of shops in various centres through which they sell the bulk of their production. The advantage claimed for this system is that the representative of the mills on the spot, being in closer touch with both wholesale and retail demand, is in a better position to keep his head office advised of the requirements of upcountry markets than a commission agent whose knowledge of them is obtainable in less direct manner. On the other hand, it was argued that it is desirable that the mills in India should, as in Lancashire, confine themselves to the business of manufacture and that they should leave the business of salesmanship to those who are experts in this line, in other words to the commission agent. There is considerable force

in this contention but it cannot be overlooked that the system of mill shops has been adopted by some of the largest, most efficient and most successful upcountry mills who appear, on the whole, to be well satisfied with the results. In view of the divergence of opinion, we do not feel in a position to make any recommendation on this point but we consider that, whichever system is adopted, it is very desirable that representatives of the mills, that is members of the firms of managing agents or of the mill staff, should visit the consuming centres from time to time in order to acquaint themselves closely with the character of the demand. We would further suggest for the consideration of the Bombay Millowners' Association the desirability of having trade correspondents in the consuming centres who would keep them informed of the tendency of the market. If they had had such correspondents, they would have been in a better position to inform us of the nature and extent of the competition in upcountry centres between Japanese goods and those produced in Bombay.

We have mentioned that, in a few instances, the function of commission agents and guarantee brokers is undertaken by the managing agents themselves and that this system is open to the objection that the interests of the mills are better served when the risks arising from defaults by purchasers are spread over a wider field and also that it has in the past, in some cases, facilitated malpractices on the part of managing agents. We consider that there is force in these objections and that it is desirable that managing agents should not act as guarantee brokers for the mills they control.

(h) Finance

85. In paragraph 43 we have expressed our view that difficulties in arranging finance both by mills and by dealers in piecegoods must be held to have contributed to the accentuation of the present depression. We have there pointed out that the evidence we received on this point was very indefinite in character and we do not feel that we have sufficient material before us to justify our making any detailed recommendations under this head. The question of the additional facilities for the initial and current finance of industries is one for investigation by an expert committee such as that recommended by the Indian Industrial Commission. Our enquiries have shown that, from the point of view of the cotton textile industry, it is very desirable that it should be examined by such a committee. It is unnecessary to emphasise the benefits the industry would derive from the existence of borrowing facilities on less onerous terms than obtain at present. We understand that an enquiry into banking generally is under contemplation and, if this is so, have no doubt that the aspect of the question on which we here lay stress will be duly considered.

We have pointed out that the comparatively small use of trade bills in financing the movement of Indian piecegoods and the difficulties experienced in obtaining loans on the security of such goods hamper transactions in them. The question of financing the products of industries by negotiable instruments to a greater extent than at present would

doubtless form one of the subjects for investigation in the enquiry mentioned above and, in these circumstances, it is unnecessary for us to do more than draw attention to the obstacles to the greater use of bills in the trade in piecegoods of Indian manufacture which, as we have pointed out in paragraph 43, arise from the fact that the original invoices from the mills are seldom forthcoming in support of the valuation and that the merchants are not, in the absence of a warehouse system, able to give the complete control over pledged goods which the banks demand. Several witnesses suggested that these difficulties would be removed by the adoption of the warehouse system which is in force in some European countries and in America where it played an important part in external trade. We would suggest that the possibilities of the adoption of this system in India should also be investigated in the course of any enquiry into banking facilities which may be held.

(*i*) *Development of export trade*

86. We have emphasised the desirability of a development of the export trade in cotton manufactures as a means of relieving the depression in Bombay. A brief examination of the present character of that trade is therefore called for. The exports both of yarn and mill-made piecegoods from India by sea are almost entirely confined to Bombay as will be seen from the fact that of the 31·9 million pounds of yarn exported in 1925-26 no less than 31·5 million pounds were from Bombay. The figures in regard to piecegoods are not so striking. Of the 164·8 million yards exported in 1925-26, 120·3 million yards were from Bombay and 44 million yards from Madras, but of the latter 31·4 million yards consisted of coloured lungis and saris and 11·5 million yards of "other sorts" of coloured, printed and dyed goods, most of which are the product of the handloom industry. As regards exports of cotton manufactures, other than yarn and piecegoods, there is a negligible export of rope, canvas, sewing thread and "other sorts". The figures under these heads are so small that it is unnecessary to give them separately. We have already analysed to some extent the figures for export of yarn in connexion with the question of the loss of the China trade. For our present purpose, it is unnecessary to go back further than the last five years. The total figures for exports by sea in millions of pounds are :—

TABLE LXXIII

1921-22	1922-23	1923-24	1924-25	1925-26	1926-27 (8 months) for Bombay only
81·0	56·9	38·5	36·5	31·9	29·3

Separate figures for grey, white and coloured yarn need not be given as the exports of white and coloured yarn combined are well under two million pounds.

The principal export markets for yarn are shown in the following table :—

TABLE LXXIV

—	1921-22	1922-23	1923-24	1924-25	1925-26
			(Millions of pounds)		
Hong Kong	44·4	38·4	19·8	14·3	9·5
China excluding Hong Kong and Macao	17·6	2·7	·9	·2	·1
Egypt	4·7	3·7	4·6	6·7	5·1
Persia	3·2	2·2	2·3	3·2	3·6
Aden and dependencies ..	2·6	2·7	2·2	2·9	2·6
Syria	1·1	1·7	2·1	2·3	1·8

It will be seen that, except for the heavy fall in the exports to China, there has been little or no change in the last five years. The figures for exports of piecegoods in millions of yards are given below :—

TABLE LXXV

—	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27 (8 months) Bombay only	1926-27 (6 months) all India
Grey	24·2	31·1	33·9	44·2	37·4	12·1	9·9
White	1·0	1·1	1·4	1·2	·9	·6	·6
Coloured, printed and dyed	135·7	124·8	130·0	136·2	126·6	77·4	79·3
Total ..	161·0	157·0	165·3	181·6	164·9	90·1	89·8

The preponderating share of coloured and dyed goods in the exports from India will be obvious from this table. The principal markets for Indian cotton manufactured goods are shown below :—

TABLE LXXVI

—	1921-22	1922-23	1923-24	1924-25	1925-26	1925-26, coloured goods only
			(Millions of yards)			
Mesopotamia	35·9	32·8	40·8	48·9	33·7	22·9
Persia	30·2	27·6	27·5	33·1	29·0	24·8
Straits Settlements	20·1	21·8	23·4	21·3	26·2	25·6
Ceylon	18·3	17·1	16·2	16·0	18·4	17·5
Portuguese Ea t Africa ..	6·8	8·2	8·4	9·4	8·9	3·2
Kenya	6·2	7·8	6·3	7·1	7·6	3·6
Tanganyika	4·1	3·6	4·2	6·8	7·0	3·5
Aden and dependencies ..	8·4	6·5	6·3	5·8	4·5	2·8
Bahrein Islands	2·7	5·3	4·7	6·4	3·9	3·2

The exports to the Straits Settlements and Ceylon consist almost entirely of hand woven coloured goods from Madras. It will thus be seen that the principal markets for the exports from Bombay are Persia, Mesopotamia and East Africa. It is not easy to compare the position of Japan in these markets with that of India owing to the different system of classification adopted and the fact that the figures of quantities of Japanese exports are not available.

The table below which gives the value in yen of the exports of cotton piecegoods from Japan to foreign countries for 1916-1925 throws some light on the position of Japan in those and other markets and also the striking extent to which the Japanese export trade has developed in recent years.

TABLE LXXVII

—	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925
				(Value in thousands of yen)						
China	34·8	84·8	88·1	143·3	130·5	101·0	108 8	100·3	137·9	194·0
Kwantung Province ..	4·0	9·0	20·8	44·2	26·6	15·5	18·5	14·6	15·7	19·5
Korea	13·1	20·7	30·8	70·9	17·2	..	..	..	..	..
Hong Kong	1·5	2·6	3·6	3·2	9·3	12·3	10·2	11·6	19·4	20·6
British India	10·6	15·1	55·4	29·5	67·3	30·4	33·6	36·6	46·9	70·4
Straits Settlements ..	·8	1·4	4·0	2·7	7·0	3·8	5·9	6·0	4·9	14·6
Dutch India	2·2	5·7	17·7	24·4	60·5	25·6	24·9	22·5	37·2	49·4
Philippine Islands ..	·3	1·0	1·5	·5	6·6	3·8	3·5	3·4	6·9	10·9
Great Britain	·8	·1	·5	·2	·1	·1	·1	..	..	..
South America	..	..	..	·5	4·8	·5	·8	1·7	3·8	2·6
Africa	..	..	..	..	3·5	2·0	1·5	14·6	23·9	22·0
United States	1·4	1·7	1·0	2·0	2·2	3·6	4·1	2·5	4·1	1·9
Australia	2·0	1·7	10·3	3·8	10·8	2·9	6·3	6·1	7·7	8·3
New Zealand	..	·4	1·3	·5	1·3	·2	·6	·5	·6	·7
Other	1·7	3·9	33·8	25·5	4·5	1·8	3·4	11·9	16·8	18·0
Total ..	73·2	148·1	268·8	351·2	352·2	203·5	222·2	232·3	325·8	432·9

Note.—Particulars for exports to Korea since 1920 are not available.

It would seem illogical to suggest to an industry which claims that the most important reason for depression is unfair foreign competition in the home market that it should seek a remedy for the depression in the development of its trade with foreign markets in which it has to meet that competition without the assistance of the protection afforded it by the present revenue duty. The table we have given above shows, however, that while the effect of foreign competition in grey goods is being increasingly felt, there are certain lines, especially of coloured and dyed goods, in which the Indian industry is still able to compete. The fact that the predominating part of the exports of piecegoods from

India consist of goods of this character lends force to our recommendation in regard to that further expansion of this side of the Bombay industry which would strengthen its position not only in the home but also in the foreign market.

The first essential, in our view, to any measures for the development of the export trade of Bombay is adequate information in regard to the foreign markets in which there is any prospect of development. We deal more fully with this question in our recommendations in regard to State aid to the industry. The second essential is that the industry should be in a position to utilise the information when acquired and we have, in paragraph 77 above, suggested that the Bombay Millowners' Association should immediately establish a strong sub-committee which would deal with all questions relating to the export trade. We would further suggest for the consideration of the industry that the feasibility of a combination of the mills manufacturing export lines should be investigated. The possibility of establishing a separate company, of which these mills would be members, which would arrange for the manufacture by its members of the lines required for export, make a suitable allocation of quantities needed and take steps to ensure that there is no imitation of marks and numbers, appears to us to deserve examination.

(*j*) *Statistical information*

87. There is one point which should be mentioned in regard to the statistical information on which we have worked. It is that the figures for the production of cotton manufactures other than yarn in Indian mills since April 1st, 1926, which are published in the Monthly Statistics of Cotton Spinning and Weaving in Indian Mills, are not strictly speaking comparable with the corresponding figures of previous years. The reason for this is that, since April 1st, 1926, the figures are those of actual production whereas for previous years they were the figures of goods actually issued from the mill premises, that is, goods on which the excise duty was levied. Stocks on hand in the mill premises at the end of the year were thus not included in them. No conclusions which we have drawn are, however, in any way affected by this change of method.

In this connexion, we would suggest that the Commercial Intelligence Department should examine the possibility of compiling the statistics of the production of cloth in Indian mills in a form in which a comparison with the figures for imported cloth could be made more satisfactorily than is at present possible. As we have pointed out elsewhere, Indian cotton manufactures, other than yarn, are classified in the published statistics under fifteen different heads only, whilst imports are shown under about a hundred different classes.

In the meantime, we would suggest that the figures for coloured goods should in future be given in the published returns under at least the seven heads under which they are given in the returns now submitted to the Customs authorities under the Cotton Industry (Statistics) Act

XX, of 1926, *viz.*, chaddars, lungis and dhotis, drills and jeans, greys dyed, coloured striped saris and susis, cotton tweeds and checks and other sorts. In view of the increasing importance of bleached goods, we would further recommend that these should be shown separately from grey goods. Acceptance of this recommendation will involve the amendment of the Cotton Industry (Statistics) Act as the definition of ' mill ' in that Act does not include bleach houses which are separate from mills and care would have to be taken to ensure that bleached goods were not recorded twice over, first as grey and subsequently as bleached goods.

CHAPTER XI

REMEDIAL MEASURES

III.—Changes in the Tariff

Suggested changes in the tariff

88. Of the four main causes of the depression which we have analysed in the preceding chapters and which we have summarised at the commencement of Chapter IX, it will be obvious that it is only against foreign competition that assistance can be given in the form of changes in the tariff. The changes in the tariff which were suggested to us were three in number: additional import duties on yarn, piecegoods and other cotton manufactures, an export duty on raw cotton, and the abolition of the duty on mill machinery and mill stores. We proceed to examine these suggestions.

(*a*) *Additional import duties on yarn, cloth and other cotton manufactures*

(*i*) *Nature of proposals put forward*

89. We received much evidence in favour of the imposition of additional import duties on cotton manufactures but, apart from those which were put forward on behalf of the hosiery industry which we deal with elsewhere, the only definite suggestions which we deem it necessary to discuss came from the representatives of the industry in Bombay and Ahmedabad. The proposals put forward by the two Millowners' Associations were not, however, in close agreement nor were they advanced on the same grounds. In their original representation, the Bombay Millowners' Association asked for "a scientific tariff so that the goods which Indian mills can manufacture and supply to India shall not be open to unfair competition from foreign competitors". They went on to state that the industry required, "in order to place it in an equal position with foreign countries in respect of the cost of manufacture, additional protection equivalent to 13 per cent. and further additional protection to enable the mills to make the necessary allowances for depreciation to plant and machinery". This 13 per cent. was based on the 8 per cent. advantage which it was held that Japan possessed on the ground of depreciated exchange and on 5 per cent. advantage due to inferior labour conditions. The additional protection asked for to enable provision to be made for depreciation was subsequently placed at 4½ per cent., so that the total demand was for 17½ per cent. In their reply to our questionnaire, the Association explained that by a "scientific tariff" they meant a fixed duty per pound on the different classes of cotton goods imported into India and that they had in mind a tariff somewhat similar to that in force in Japan. They considered "that a heavy duty should be levied on coarse goods and lower counts of yarn, a moderate duty on medium classes of goods and a low duty or the present rate on higher counts and

on special types of goods which cannot be manufactured in India economically." In the course of their oral examination, the representatives of the Association elaborated their position and explained that the increased *ad valorem* duty of 17½ per cent. and the scientific tariff were alternative suggestions and that, if the scientific tariff were adopted in preference to the 17½ per cent. *ad valorem* duty, the specific duties imposed under it on certain classes of goods would require to be much heavier.

The concern of the Bombay Millowners' Association was with protection against what they regarded as unfair competition. The Ahmedabad Millowners' Association went further. In their reply to our questionnaire, they asked for a substantial increase in the import duty on cloth and yarn up to 40s counts, a moderate increase for counts up to 60s and little or no increase on counts above 60s. In their oral examination, they explained that they asked for increased duties on all imported yarn, cloth and other manufactured goods and justified the extension of their demand beyond that put forward by the Bombay Millowners' Association on the ground that the additional duties proposed would enable the Indian mill industry to establish itself firmly in the spinning of higher counts of yarn and the manufacture of cloth therefrom. In the course of their oral examination, their representatives also changed the character of their demand slightly and asked that the higher duty should be imposed at a uniform rate on all counts of yarn up to 60s and on cloth manufactured therefrom, the duty on yarn and cloth above 60s to be such duty as was required for revenue purposes.

We have before us, therefore, three different proposals, two emanating from the Bombay Millowners' Association and one from the Ahmedabad Millowners' Association. These are :—

(1) Additional duties to the extent of 17½ per cent. on cotton manufactures imported from countries from which there is "unfair" competition.

(2) Specific duties of amounts not specified on all imported goods of low, medium and higher counts respectively but which would work out on certain classes of goods at a higher rate than the *ad valorem* duty.

(3) Additional duties to the extent of 12½ per cent. on all cotton manufactured goods of counts up to 60s from whatever country imported and lower duties on those of counts above 60s.

Before we proceed to examine in detail the grounds on which the Bombay Millowners' Association have sought to justify the imposition of the additional duties they suggest, it is necessary that we should consider, in their broader aspects, the problems involved in the levy of duties at the rates suggested by the two Associations, in other words, the general effect of high additional duties on the future course of prices and the development of the industry.

(*ii*) *Examination of effect of high additional duties*

90. The first of the three proposals set forth above is that an additional duty of 17½ per cent. should be levied on all imports from foreign countries from which there is "unfair competition." The duty would thus be

a differential duty on a comparatively small portion of the imports even, if it were decided, in order to avoid the difficulties arising from the existence of the Anglo-Japanese Convention of 1905, to extend it to all countries outside the British Empire. It is unnecessary to enter in any detail into analysis of the working of such a duty and it will suffice to state the conclusion that a differential duty on a relatively small portion of the supply does not bring about an increase in prices over the whole supply unless, and the reservation is of the greatest importance in the present connexion, prices before the levy of the duty have not been such as to yield an adequate return to the industry. If, on the other hand, as is claimed, prices have been forced below the cost of production of efficient mills by the pressure of unfair foreign competition, the levy of a differential duty against the countries from which such competition comes should raise them to a level which is, at any rate, sufficiently high to meet the expenses of production. The extent of the rise will depend on the extent to which it corrects the unfair advantages enjoyed by foreign competitors. To the extent of that rise, it involves a burden on the consumer but it cannot be considered an undue burden since no industry can be expected to suffer continuous losses in his interests. Dumping and depreciated exchange were held by the Indian Fiscal Commission to constitute unfair competition against which Indian industry was justified in seeking protection beyond that afforded by any existing revenue duties. The case of unfair labour conditions was not specifically considered by the Indian Fiscal Commission but it appears to us to fall within the same category. We hold that an industry may legitimately ask the State to assist it to revert to what may be regarded as normal conditions of business and that the consideration of decisive importance is, therefore, the correctness of the analysis of the situation and the accuracy of the estimates of the disadvantages to which the industry is subjected by unfair competition. It should be pointed out that, even if no countervailing duty is levied, a rise in price is inevitable since, unless Japan is able to supply all the requirements of India at the low prices at which she is able to supply part of them, it is to her interest, once she has established herself in the Indian market, to allow prices to rise to the level at which other competitors can sell without loss but which would yield her larger profits. A rise of prices in this way would, however, be far more gradual than that which would follow the imposition of a differential duty and in the meantime serious and perhaps lasting damage might have been inflicted on the home industry. From the point of view of the consumer, therefore, the imposition of a differential duty against unfair competition merely hastens the rise in prices which would, in any event, be brought about by the play of normal economic forces.

The proposed specific duties stand on a different footing. They are intended to secure in an indirect way what a duty on all classes of goods imported from Japan would secure in a direct way. We shall deal subsequently with the administrative and technical difficulties which militate against the resort to such duties, whether for revenue or protective purposes, but would here draw attention to some considerations which

we regard as of very great importance. While the objective of duties imposed on the basis advocated by the Bombay Millowners' Association might be the imports from one country only, the duties would affect the imports from all countries alike. Heavy duties on coarse cloth and lower counts of yarn and moderate duties on medium classes of goods would cause a rise in prices of all such goods entering India. The rise in prices would thus be both more immediate and higher than would be effected by duties levied against the imports from a particular country only. The only safeguard to the consumer would lie in the operation of internal competition and the operation of this factor would be impeded by the virtual monopoly in the coarser and medium goods secured by the heavy duties on them. The burden on the consumer would thus be heavy and of considerable duration and the only justification for it would lie "in the educative influence which may be brought to bear on the industrial classes of a nation to devote their energies to tasks for which they have adequate resources and opportunities but in which they nevertheless lag behind the best practice that can be found elsewhere (Dr. Marshall)." There is, unfortunately, no reason to believe that any development in this direction would follow. We have stated elsewhere our view that it is essential to the recovery of the Bombay industry that there should be greater diversification of production and a development of the spinning of higher counts of yarn. Both the form and magnitude of the specific duties suggested would retard rather promote such a development as they would place a premium on the spinning of the lower counts and the manufacture of cloth from them. They would, therefore, in no case, benefit the Bombay industry which stands in the greatest need of assistance, for they would not help it in its competition with the upcountry mills. The result of such duties would be to impose a burden on the consumer of the coarser goods who is obviously least able to bear it in order to enable the industry to persist in unprogressive lines of productoin and that too at a time when it is the contention, even of those who advocate the duties, that his purchasing power has been reduced.

The proposals put forward by the Ahmedabad Millowners' Association differ from those examined immediately above in that they do not favour the production of coarser goods to the disadvantage of those of medium counts and are indeed put forward in the expectation that the change to medium counts would be stimulated by the imposition of the duties they propose. The difference is, however, one of degree rather than one of principle. If there is no differentiation in the treatment of coarse and medium goods, it is not to be expected that a development in the production of the latter which has been under discussion for a long time past without any appreciable results will come about. The objections to specific duties apply equally to these proposals.

Exception may be taken to the presentation of the case which has been put forward above on the ground that, while the specific duties have been proposed either solely or mainly to protect the industry against unfair foreign competition we have applied a test which is irrelevant

in this connexion, that of the greater diversification of the industry. So far as the Ahmedabad Millowners' Association are concerned, however, the view was distinctly put forward that the additional duties were required even more for the promotion of greater diversification than for protection against unfair foreign competition. There is a further answer that, in view of the heavy burden likely to be imposed on the consumer, protection on the scale asked for can only be legitimately demanded by an infant industry.

It may further be urged that we have exaggerated the extent and duration of the burden to the consumer as internal competition would operate to prevent any rise in prices beyond the level of normal expenses of production including a reasonable return on capital. This view was placed before us both by the representatives of the industry and by other witnesses. It is a view which is widely held and is not without theoretical justification if long period results alone are considered. It is a valid argument that, given immunity from foreign competition, the home producer will at first reap the benefit of prices raised almost to the extent of the additional duty but that the prospect of such prices will induce increased production both by those already in the field and by those attracted to the industry by the expectation of high profits. In consequence, prices will again be lowered by competition among the producers to the level at which they only cover costs of production including the reasonable return on capital which it is the presumption that at the earlier level of lower prices brought about by unfair foreign competition they did not do. But while the high duties are proposed avowedly on the ground that only then will conditions be equalised, the argument implies that the lower level of prices brought about by internal competition will still be sufficiently high to compensate producers. In other words, either it is sought to place on the consumer at the outset a larger burden than is justified or the industry will, as soon as internal competition lowers the level of prices, be no better off than it was before the duties were imposed.

A further objection to protection on the scale proposed by the representatives of the industry is that whilst, on the one hand it would encourage additional production, on the other, it would restrict consumption. The problem before the Indian mill industry and especially the Bombay section of it is to secure increased consumption and not merely to make higher profits on restricted sales. The Bombay Millowners' Association in their original representation have expressed the view that enhanced import duties would not raise the prices to the consumer as internal competition between the mills in India would establish 'equitable' prices. We have examined this aspect of the question above. They further maintain that the enhancement of the import duties on cotton manufactures other than yarn to 11 per cent. in 1921 did not raise the price of cloth or check its consumption. It is impossible to disentangle the effect of an increased duty on prices or on consumption especially where, as in the case of cotton textiles, so much depends on other factors such as the cost of raw material in respect of prices or the presence or absence of a good monsoon in respect of consumption. But it is axiomatic

that, other things being equal the effect of an increased duty must be to enhance prices and that the effect of increased prices is to restrict consumption. The figures of consumption per head of cloth which we give in Appendix IV throw some light on this as they bring out very clearly the extent to which high prices restricted consumption, from 1917 to 1923, and especially in 1919-20. It is difficult to draw a definite conclusion from the figures for the last four years but it is noteworthy that the consumption of cloth per head in 1924-25, 15·01 yards, was higher than in any year since 1913-14 and that allowing for the slight correction required owing to the absence of figures for exports by land for 1925-26, it was higher in 1925-26 than in any pre-war year, with the exception of 1912-13 and 1913-14 when imports were unusually high owing to the abundance and low price of American cotton. Although prices in 1924-25 were slightly higher than in 1923-24, the average prices of longcloth being 22·16 annas per pound in the former year against 21·52 annas in the latter the consumption per head in the latter year was 15·01 yards against 12·12 yards in the former. This can be accounted for by the fact that 1924-25 followed a long series of years in which prices had been high and consumption below normal and also that the decline in prices which has continued ever since set in in August of that year. The figures appear to show that the recent decline in prices has stimulated consumption, a movement which an increase in import duties would undoubtedly check.

Our President desires to make it clear that, while he is in entire agreement with the views expressed above, he wishes this part of the chapter to be read in the light of the remarks in his minute of dissent.

(iii) Examination of the grounds on which high additional duties have been proposed

91. We now proceed to examine the grounds on which the Bombay Millowners' Association have put forward a claim for 17½ per cent. protection against foreign countries, the imports from which compete unfairly with Indian manufactures. The claim for a 4½ per cent. duty to enable Indian mills to make the necessary allowance for depreciation of plant and machinery can be dismissed very briefly. Depreciation charges are obviously as much a cost of production in the country against which protection is sought as they are in this country and an enhancement of protection to enable provision to be made for them as well as on the ground that costs of production, owing to unfair competition, are lower elsewhere than they are in India would obviously mean that they would be allowed for twice over. No claim for protection to enable this provision to be made can, therefore, be admitted.

The Bombay Millowners' Association claimed a protective duty of 8 per cent. on the ground of depreciated exchange. It is unnecessary to examine the basis of the calculations on which this claim was made since, as we have pointed out in paragraph 30, any advantage which Japan possessed owing to a depreciated exchange has disappeared with the restoration of the yen to its gold parity and any disadvantages to which the industry may be subjected from the stabilisation of the

rupee at 1*s.* 6*d.* are, therefore, not confined to imports from Japan. In paragraph 38, we have discussed the extent of these disadvantages and have stated our conclusion that the stabilisation of the rupee at 1*s.* 6*d.*, coming as it has done at a time of falling prices, has rendered the problem presented by the disparity between prices and wages in the cotton textile industry more pronounced. That foreign competition may be intensified in such circumstances until prices and wages adjust themselves to the altered ratio is an economic truism. A number of countries have enacted tariff legislation to safeguard home industries against unfair competition arising from the depreciated currencies of competing countries. The validity of the principle underlying such legislation was admitted by the Indian Fiscal Commission who suggested the insertion in the legislation against dumping, which they proposed, of a clause on the lines of the provision in the Australian Act which would, in their opinion, prove an ample safeguard against any dangers that might be anticipated from exports from a country with a depreciated exchange.

It was held by many witnesses before us that if the validity of the argument for protection against countries with a depreciated exchange is admitted, a similar argument must be held to apply to a rise in exchange to which internal prices and wages have not been adjusted. We have pointed out elsewhere that the direct disadvantages to the cotton industry have been estimated at between four and six per cent. according to the price of cotton but that, in our view, it is impossible satisfactorily to assess either the exact measure of the disadvantage or the period for which it will last. In these circumstances and, in view of the complexity of the considerations involved, we should have had considerable hesitation in proposing an increase in the import duty on this ground alone but the majority of us consider that the reasons we advance elsewhere for a small all-round increase in the import duty on cotton manufactures other than yarn are strengthened by the undoubted temporary handicap imposed on the industry by the stabilisation of the rupee at 1*s.* 6*d.* Our President dissents from this view for reasons recorded in his separate minute.

We now come to the examination of the claim of the Bombay Millowners' Association that the Indian cotton textile industry requires protection against Japan owing to the competition which results from the unfair conditions in that country in regard to hours of labour and the employment of women and children at night. In paragraph 35 above, we have stated our conclusion that, to the extent that conditions of labour in Japan are inferior to those in India in these respects, it must be held that there is unfair competition between India and Japan. We have further pointed out that Japanese competition is severely affecting the Indian industry in respect both of yarn and piecegoods and our conclusion is that, to the extent that this competition is facilitated by the inferior conditions of labour in Japan, the industry has established its claim to protection against it. The Bombay Millowners' Association estimate the advantage which accrues to the Japanese industry from its labour

conditions at five per cent. We have preferred to make our own detailed calculations under this head, and have assessed the advantage in actual cost of manufacture at about 4 per cent. in both yarn and cloth. If, as the majority of us consider, the advantage the Japanese industry obtains should be worked out on the basis of the inclusion of a reasonable return on capital in the cost of production, as is the practice of the United States Tariff Commission with regard to their calculations of comparative costs of production, it is very much greater and may be placed in the neighbourhood of 12½ per cent. on cloth and 10 per cent. on yarn. We are agreed that, in addition to the protection afforded by the present import duty of 5 per cent. on yarn and 11 per cent. on cloth, a moderate measure of protection can be justified for such period as the labour conditions in Japan continue inferior to those in India.

(iv) Conclusions and recommendations

92. The majority of us consider, however, that the imposition of any additional duty on yarn is undesirable in view of the effect that this would have on the handloom industry which in 1925-26, according to the figures given in Appendix IV supplied about 26 per cent. of the total consumption of cloth in India. It was represented to us by many witnesses, including some Directors of Industries, that the imposition of an additional duty on yarn would not affect that industry unfavourably as the greatest part of its output is of cloth woven from yarn of the finer counts and may, therefore, be regarded as a luxury product, any increase in the price of which due to an enhanced duty could easily be passed on to the consumer. We are not convinced by this argument. The figures we have given in preceding chapters show that a large proportion of the output of the Bombay mills in the coarser counts is placed on the Indian market and any increase in the price of this must react unfavourably on the handloom industry. It will also react unfavourably on the position of those mills which have weaving sheds only and are dependent on yarn either locally manufactured or imported. For these reasons the majority of us are of opinion that any assistance given to the spinning industry is, for reasons stated elsewhere, best given in the form of a bounty. In regard to protection for cotton manufactures other than yarn in order to enable them to meet Japanese competition, there are four methods by which such a duty could be levied.

An additional duty might be levied on imports from Japan alone. This would necessitate the abrogation of the Anglo-Japanese Convention of 1905 under which Japanese imports into India are entitled to "most favoured nation treatment" and might lead to retaliation against exports from India which largely exceed in value the imports into this country from Japan, the figures in 1925-26 being Rs. 58 crores for exports against Rs. 18 crores for imports. In these circumstances, the majority of us are of opinion that the imposition of a differential duty against Japan is undesirable when the object aimed at can be secured in other ways.

It should be pointed out that a further complication arises from the fact that, if a differential duty is imposed against Japan on the ground

of inferior labour conditions, it would appear logically to follow that it should also be imposed against China where labour conditions are inferior to those in Japan and also against the United States which also has not ratified the Washington Convention and where, as will be seen from Appendix IX, in some of the Southern States, there is no limitation of the number of hours and no prohibition of the employment of female labour at night. In a report of a special investigation into conditions in the textile industry in Massachusetts and the Southern States of the United States of America presented to the Governor and Council of Massachusetts in 1923, it is stated that in practice most of the operatives in the mills in the Southern States work fifty-five hours per week during the day time, ten hours for five days and five hours on Saturday and that then, if necessary, a night shift (including women) may be employed for ten hours each night except Saturday and Sunday.

A specific duty might be levied on the class of goods which are in the main imported from Japan. We have dealt with the general aspect of such a duty but there are further objections to it. The first of these, which rules it out in existing conditions, apart from any other consideration, is that, except of course, in regard to yarn, no machinery at present exists for working such a duty. The ascertainment of the exact counts of yarn from which a particular cloth is manufactured is a highly technical process for carrying out which an expert staff would be required. We examined the Collectors of Customs at Bombay, Madras and Calcutta on this point and, while they are agreed that the substitution of specific for *ad valorem* duties would be welcomed by the Customs Department for administrative reasons as it would obviate the difficulties which at present arise in regard to valuations, more especially in Calcutta, it would be extremely difficult to evolve a satisfactory scheme even for grey goods owing to the immense range of cloth which enters India. Various attempts have been made to frame such a scheme but no progress has so far been achieved. Even in regard to grey goods which, it was agreed, represented a much easier problem than bleached or coloured, printed and dyed goods, the very important class of bordered dhotis presents great complications.

A tariff on cotton textiles on these lines is already in force in other countries, of which Austria may be mentioned as an example, but a satisfactory scheme could, in our view, only be worked out by an expert with a very close knowledge both of Indian and imported piecegoods in consultation with the trade and the work would take several months. No solution of the present problem can therefore be found in this direction even if there were not objections from other points of view to the proposal. There is the consideration, the force of which the representatives of the Millowners' Association themselves admitted, that the imposition of a duty by counts would lead to legitimate substitution. The imposition of a heavy duty on counts of yarn below 30s or on cloth made therefrom, would, for example, lead to the increased import of counts of yarn just above 30s or of cloth made therefrom, and the object for which the heavier protection against the

lower counts was granted would be frustrated. The only solution for this difficulty which was offered to us was the raising of the dividing line; for example, if the object was protection against cloth manufactured from counts of yarn under 30s, it was held that it would be necessary to impose a duty on all cloth made from counts of yarn under 40s. If that proved insufficient, the line would then have to be placed at 50s. It will be obvious that this does not furnish a satisfactory solution of the problem. There is the further objection that, while the object of a specific duty based on counts might be simply protection against Japan, it would also affect a very large proportion of the imports from other countries, more especially those from the United Kingdom since, as we have pointed out, between 40 and 45 per cent. of the imports from that country consist of cloth of counts between 30s and 40s, so that the limited purpose for which the duty might be imposed would not be attained. In these circumstances, we are unanimously of opinion that protection to the industry cannot be given in the form of a differential duty based on counts of yarn.

The third method by which the Indian industry might be protected against unfair competition is by the imposition of an *ad valorem* duty on cotton manufactures from all countries other than those within the British Empire. The adoption of this course would obviate any difficulties arising from the existence of the Anglo-Japanese Convention which only secures for Japanese goods imported into India the lowest customs duties applicable to similar products of any other foreign origin, that is, imports from countries outside the British Empire. The majority of us do not consider it necessary to discuss the advisability of such a duty for three reasons. In the first place, it would, in effect, amount to Imperial Preference and thus raise broader questions of commercial policy than can be dealt with by such a Board as ours with limited terms of reference. A second and even more important consideration is that the proposals we subsequently put forward will involve a very much larger expenditure than would be provided by the imposition of a duty which would only affect a comparatively small proportion of the imports into India. The third objection is that goods of foreign origin might be imported into India through ports within the Empire such as Hong Kong or Singapore.

The fourth method which the majority of us favour is, therefore, that of an addition to the present *ad valorem* duty of 11 per cent. on all cotton manufactures other than yarn. Such a duty has, in our view, four great advantages. In the first place, it gives protection against unfair competition. In the second, it avoids complications arising from discrimination against particular countries. In the third, it enables funds to be found to give a definite stimulus to the development of the industry on the lines we have considered desirable and, lastly, it obviates the necessity for certificates of origin which would be necessary to ensure that goods of foreign origin are not passed off as goods from any part of the Empire. We discuss in Chapter XII the manner in which this stimulus should be given.

(*b*) *Export duty on cotton*

93. It was suggested to us by several witnesses that an export duty should be levied on raw cotton, mainly on the ground that, as the bulk of such exports goes to Japan, an export duty would mean a substantial measure of protection to the Indian mill industry against Japanese competition. The Bombay Millowners' Association expressed no views on the point owing to a divergence of opinion among the members of the Association both in regard to the desirability of such a duty and its incidence, if imposed. The Ahmedabad Millowners' Association were in favour of an export duty of five per cent. to be earmarked for the improvement of cotton cultivation. Both the Indian Fiscal Commission and the Indian Taxation Enquiry Committee considered a similar proposal but both ruled it out on the ground that the duty would fall on the cotton producer in India and would have the effect of discouraging the cultivation of cotton. We entirely agree in this conclusion. The Indian cotton crop during the past three years has averaged 5·76 million bales of which an average of 3·75 million bales or 65 per cent. has been exported, Japan taking 1·82 million bales or almost exactly half. As the Indian Fiscal Commission pointed out, Indian cotton is neither a monopoly nor a semi-monopoly. That American cotton can be substituted for it, even for the manufacture of counts ordinarily spun in Indian mills, has been shown by the remarkable increase in the imports of American cotton into this country in the current season owing to the fact that the price of Indian cotton has been above its normal parity with that of American. In ordinary years, the imports of American cotton into India are negligible but, up to the time of writing, they have, during the current cotton year, that is from September 1st to August 31st, amounted to 45,767 bales and it is estimated that a further 114,742 bales will be imported. It will be obvious that, if American cotton can advantageously be imported into India when Indian prices are considered unduly high as compared with American, this must be also the case in other countries which import Indian cotton, especially in Japan which, as we have pointed out, operates on a very large scale in both the American and Indian markets and is therefore in a position to take the fullest advantage of any disparity in prices between them. The imports of Indian cotton into Japan as well as into other countries are, therefore, undoubtedly determined to a large extent by considerations of comparative cost and, in these circumstances, the burden of an export duty must fall on the producer. There can, in our view, be no justification for imposing on the cultivators of a particular product the burden of what would in effect be an indirect subsidy to the mill industry, more especially as that industry is not their largest customer. We are further convinced that the imposition of an export duty on raw cotton would not be in the best interests of the mill industry itself. We have pointed out how essential it is that that industry, and more especially the Bombay section of it, should embark on greater diversity of production and should place on the market better qualities of cloth than it is at present doing. The more favourable its position in regard to supplies of raw material,

the better able it will be to follow this course. The Indian Central Cotton Committee has already done extremely good work in improving the staple of Indian cotton and to its activities must in a large measure be attributed the great increase in the outturn of what in India is considered long staple cotton, that is cotton of staple $\frac{7}{8}$ths inch in length and over. In 1925-26, this amounted to 2·14 million bales against an average of 1·16 million bales for 1915-18, an increase of 84·8 per cent. against an increase of only 29·8 per cent. for short staple cotton. That there is, however, a vast field for further improvement will be evident from the estimate placed before us by the Indian Cotton Committee to which we have already referred in paragraph 81 and according to which only 320,000 bales or 16 per cent. of the long staple cotton are suitable for warp yarn of counts from 30s to 36s, and for weft yarn of over 36s, with an additional 60,000 bales suitable for weft yarn of over 36s counts. It is the Indian mill industry which, by the mere fact of proximity, stands most to gain by an improvement in the staple of Indian cotton and the imposition of an export duty which would prejudicially affect the cultivation of all types of cotton by reducing the cultivator's share of the value of the crop would react greatly to the disadvantage of that industry.

(c) Remission of duty on machinery and mill stores

94. Among the proposals submitted to us by the Bombay Millowners' Association was one that the duty on machinery and mill stores should be abolished on the ground that the continuance of these duties is inconsistent with the recommendation of the Indian Fiscal Commission that the existing duty of 2½ per cent. on machinery should be abolished as early as possible and that raw materials required for Indian industries should ordinarily be admitted free of duty. We have no information as to the extent to which the Japanese industry has an advantage over the Indian industry in regard to its ability to obtain supplies of locally manufactured mill stores. Little spinning machinery is, we understand, manufactured in Japan which is dependent in the main for its equipment in this respect on machinery imported from Great Britain and the United States but an increasing proportion of the power looms required is locally manufactured.

Previous to the revision of the Indian tariff in 1916 all machinery, as defined in the tariff, was admitted free of duty. Mill stores were assessable to duty under the Statute but under Customs Circular No. IV of 1896 the articles shown in the list below were admitted free of duty, provided they were imported by the owner of a cotton weaving mill and it was established to the satisfaction of the Customs Department that they were intended for use in the weaving of cotton or the baling of cotton woven goods.

Aniline, blue.
Bisulphate of soda.
China clay.
Chloride of magnesium.
Chloride of zinc.
Epsom salts.
Farina.
Flannel taping.
Glauber salts.
Glutina.

Glycerine substitute.
Heald varnish.
Hoop iron.
Rivets for bales.
Sewing needles.
Sizing paste.
Sizing wax.
Soda ash.
Starch.

Some additions to this list were made from time to time, drossalin velvet pulp being added in 1896, hoop steel in 1897, calcium chloride in 1915 and farinina in 1916.

In 1912, a refund of the duty paid on tallow consumed in cotton mills was granted, the system of free entry being inapplicable to this commodity which is used for other purposes than mill consumption and the consumption of which had, therefore, to be checked, the refund being given on the amount proved to have been consumed. The check on consumption was exercised by the combined Cotton Excise and Factory Inspection staff which no longer exists as such.

In 1916, when the general rate of duty was raised from 5 to 7½ per cent. the cotton import and excise duties remaining at the old level of 3½ per cent., a duty of 2½ per cent. was imposed on machinery, but cotton mill machinery as defined by the Statute remained free of duty. The Statute only exempted machinery actually imported by the owner of a cotton mill but the Government of India sanctioned a procedure under which mills which bought textile machinery from " stockists " could obtain a refund of the duty paid. The mill stores mentioned above continued to be exempted from duty and refunds were still permitted on the duty on tallow actually consumed in mills.

In 1917, the duty on cotton goods was raised to the general level of 7½ per cent. and in 1921 was again raised with the general level to 11 per cent., the excise duty remaining at 3½ per cent. In these circumstances, it was considered that there was no longer any justification for the concessions in regard to imports of machinery and mill stores which had up till then been allowed. The statutory exemption from duty of cotton textile machinery was, therefore, abolished and this became subject to the 2½ per cent. duty. The exemption from duty of mill stores and the refund of duty on tallow also ceased to exist. The position of cotton machinery and stores remained unaltered under the tariff revision of 1922 when the general duty was raised to 15 per cent., the duty on cotton goods remaining at 11 per cent. but a duty of 5 per cent. was imposed on cotton yarn which had till then been admitted free. Since that date, there have been certain minor changes in the definition of machinery and component parts but the only change of importance in the present connexion is that which was made by the Indian Tariff Act of 1926 which inserted in the statutory schedule a new item, 51B, under which various classes of textile apparatus were made assessable at 2½ per cent. by whatever power they were operated. In other words, the articles listed became subject to the 2½ per cent. duty even though they did not satisfy the tariff definition of machinery or component parts.

The main reason for the special treatment of the cotton mill industry in respect of machinery and mill stores, namely, that its production was subject to an excise duty of 3½ per cent. has ceased to exist and though imports of manufactured goods other than yarn are still subject to a duty of 11 per cent. only as against the general duty of 15 per cent., this will also cease to be the case if the recommendations made by the majority of us are accepted. We are, however, of opinion that it is essential in view of the present depression in the industry that it should be given assistance in all possible ways and therefore recommend that the concession given it previous to 1921 should again be granted. We would suggest that the question of continuing it should be considered in the light of the existing conditions towards the end of the period for which we propose that the additional duty we recommend should be imposed.

Mill machinery actually imported by a mill would thus be admitted free of duty and the procedure formerly in force under which mills which bought textile machinery from "stockists" were able to obtain a refund of the duty would be restored. As regards mill stores, we have carefully examined the list of stores consumed by mills and the extent to which the various classes of stores are used. We are of opinion that it is unnecessary to do more than grant the concession to those stores which are used on an appreciable scale. The most satisfactory method of working the concession, in our view, would be to grant total exemption for stores which can be only used by cotton mills or in the handloom industry, to which in our view the concession should also be extended so far as is practicable, or the use outside of which is negligible. The exemption in the case of other stores would be confined to stores imported direct for *bona fide* use in mills, which would be admitted free of duty, and to stores obtained from "stockists" on which a refund of duty would be granted. It would be necessary to check the actual consumption by mills in order to prevent excess importations. The Cotton Excise staff is no longer available for this purpose but the check in the case of mills at headquarters could probably be effected by the Customs Department. For mills outside the ports it should, we think, be possible to arrange for the utilisation of the Factory Inspection staff for the purpose.

We give below two lists showing the stores which would fall under the two heads, stores totally exempted and stores exempted if imported direct for *bona fide* use in cotton mills or on which a refund of duty would be paid if purchased from "stockists":—

List No. I

List of mill stores which would be totally exempted from import duty

	Present rate of duty
China clay	15 per cent.
Bleaching powder and bleaching paste ..	15 „
Magnesium chloride	15 „

	Present rate of duty
Zinc chloride	15 per cent.
Sago flour	15 ,,
Farina	15 ,,
Alizarine, aniline and other cotton dyes (dry or moist)	15 ,,
Roller cloth, clearer cloth and sizing flannel	15 ,,
Shuttles and parts thereof for use in the cotton mill and handloom industries	2½ ,,
Healds, heald cords and heald varnish for use in the cotton mill and handloom industries.	2½ ,,
Reeds for use in the cotton mill and handloom industries	2½ ,,
Pickers, picking stocks and picking bands for use in the cotton mill and handloom industries	2½ ,,

List No. II

List of mill stores which would be exempted from import duty if imported direct for bona fide *use in mills or on which a refund of duty would be paid if purchased from " stockists "*

	Present rate of duty
Cotton driving ropes	15 per cent.
Roller skins	15 ,,
Soda ash	15 ,,
Starch	15 ,,
Springs of all kinds	15 ,,
Tallow	15 ,,
Epsom salts	15 ,,
Caustic soda	15 ,,
Hoop iron and button rivets	10 ,,
Sprinkler parts	2½ to 15 per cent.
Leather, hair and cotton belting ..	2½ per cent.
Bobbins and skewers of all kinds ..	2½ ,,
Wire filleting	2½ ,,
Lubricating oil	1⅓ annas per gallon.

We should explain that we have included China clay in the first list although it is not a commodity which is used entirely in cotton mills but is also used in the manufacture of paper as we understand that its total exemption from import duty would lead to its import in bulk and thereby greatly cheapen its price.

We have not overlooked the fact that the acceptance of our recommendations might in the case of one or two items in the lists, such as

magnesium chloride and bobbins, prejudicially affect existing Indian industries but we are of opinion that it is for such industries to establish a case for protection in the usual manner.

We are not in a position to give an exact estimate of the effect on the customs revenue which would be involved in the acceptance of our proposals. The amount of the duties collected on dyes, for example, varies very greatly from year to year as is shown by the figures for Bombay. The highest figure reached was in 1922-23 when the duty amounted to Rs. 40·8 lakhs. In 1924-25, it was Rs. 31·1 lakhs and, in 1925-26, Rs. 16·9 lakhs. In the letter dated 8th February 1924 addressed by the Bombay Millowners' Association to the Government of Bombay with reference to the cotton excise duties, the total amount of duty on mill stores paid by mills in British India was estimated at Rs. 50 lakhs. To this should be added the duty on stores used by mills in Indian States which, as their total production is about one-tenth of that of the mills in British territory, would amount to another Rs. 5 lakhs or Rs. 55 lakhs in all. This estimate included the duty on spare parts but not on mill machinery. As we have pointed out, the value of the imports of cotton textile machinery into India in recent years has shown very great variations. In 1924-25, it amounted to Rs. 268 lakhs, a duty of 2½ per cent. on which would amount to Rs. 6·7 lakhs. In 1925-26, it amounted to Rs. 235 lakhs, a duty on which at 2½ per cent. would amount to Rs. 5·9 lakhs. The value both of machinery and of stores has fallen since the millowners' estimate was framed and, in view of this, and of the restriction of the concession we propose to the more important classes of mill stores, we are of opinion that, on the basis of the Millowners' Association's estimate, the total loss of revenue involved should not exceed Rs. 50 lakhs.

CHAPTER XII

REMEDIAL MEASURES

IV.—State aid other than changes in the tariff

Introductory

95. We have been directed "to report whether having regard (*i*) to the fact that the industry has long been firmly established in India and (*ii*) to the interests of the consumer and all other interests affected (*a*) the industry is in need of protection and (*b*) if so, in what form and for what period protection should be given?" We have further been directed to make any other recommendations that are germane to the subject. Our terms of reference, therefore, do not limit us to the examination and discussion of the proposals in regard to State aid put forward by the leaders of the industry. Apart from the comparatively unimportant proposals which we examine below, the only form of State aid which they have suggested is that of changes in the tariff. We have given reasons in the preceding chapter for the view that no large increase in the present revenue duty would prove of real benefit to the industry. The majority of us have there proposed a small all-round increase in the duty on cotton manufactures other than yarn not only because this eliminates the element of unfair competition and compensates for any maladjustment between prices and wages but also because it appears to us to be the most suitable way in which to provide the funds for the scheme we propose.

Our analysis of the factors which have caused or accentuated the present depression which, as we have shown, is far more acutely felt in Bombay than it is elsewhere, will have failed in its purpose if it has not brought out the critical position of the Bombay industry as the result of the cumulative effect of a number of causes. We have shown in Chapter III that the industry in Bombay has had to face three years of heavy and increasing losses. We have given the actual figures of these losses for 1924 and 1925 and there can be little doubt that the figures for 1926 will make a worse showing than those for 1925.

The demoralising effect of such a series of bad years need not be emphasised, and though it has not been established that any mill managed with a reasonable degree of efficiency and economy has been forced into liquidation as the result of the depression, the possibility cannot be overlooked that this may not continue to be so and that, should the present condition of affairs in Bombay continue, mills of good standing may be compelled to close down with serious consequences to the industry as a whole. As Mr. J. M. Keynes has recently remarked with reference to similar possibilities in Lancashire: "Bankruptcy would not take place without a grave struggle and losses on the part of those made bankrupt would react on those not made bankrupt." The cotton textile industry is the most important industry in India and Bombay is still by far the biggest centre of it. The extent to which the prosperity of Bombay City and of the Bombay Presidency are bound up with the fortunes of

the industry needs no emphasis from us. In view of the dangers, financial and industrial, which are inherent in the continuance of the present conditions, the case for as effective a measure of State aid as possible does not appear to us to require elaboration.

The assistance given by the State should be adequate in order that the industry may receive the psychological and financial stimulus it needs to help it to surmount its difficulties. On the other hand, it must be on as economical a scale as is consistent with the first essential not only in the interests of the community generally but also in order that it may impose the minimum burden on the consumer. It should also take the form in which it is best calculated to secure the development of the industry on lines which will enable it to dispense with external aid at the earliest possible date. On all these grounds, it is the opinion of the majority of us that State aid can best be given for the promotion of development on specific lines and should, therefore, take the form of direct monetary help for the promotion of specific ends. We have in the previous chapter emphasised the disadvantages of high protective import duties. Here, as a preliminary to the measures we suggest, we would lay stress on the advantages of subsidies and bounties. The most obvious of these is that the burden on the community is direct and measurable, whereas in the case of import duties there is always the danger that their effect may be masked by the operation of a number of other factors affecting the price of the taxed commodity. We hold that this advantage is decisive when the help which is sought is for a well established industry. The preference of producers for an import duty over a bounty is, in itself, a strong argument in favour of the bounty. The second advantage possessed by a bounty is that help is given without raising prices or removing the stimulus to efficiency provided by foreign competition. Another and by no means the least of the advantages of this form of assistance is that the stimulus it gives to the industry is much greater than that given by an import duty which would afford it the same measure of financial help. In these circumstances, the case for a bounty or subsidy for the cotton textile industry appears to us very strong indeed.

(a) Bounties on the spinning of higher counts of yarn

96. We have, in Chapter X, expressed the view that it is essential that Bombay should utilise to the full its natural advantages in the matter of climate and of its situation, in respect of imports of American and African cotton, for the production of goods of higher quality than it has done in the past, that it should devote much less attention than it has done to the production of grey goods, more especially of grey longcloth and shirtings, and that it should embark on a much larger production of bleached and coloured, printed and dyed goods. Our proposals in regard to the grant of State aid are, therefore, directed to the promotion of development in these directions. We consider that the stimulus to the production of goods of higher quality can best be given in the form of a bounty on the spinning of higher counts of yarn instead of an additional import duty on yarn which, if a reasonable return on capital is included in the cost of production, would, in order to be effective, have to be high.

While we should have preferred to confine the bounty we propose to counts of yarn from 31s to 40s produced in Bombay, as it is Bombay where the need for an alteration in the character of production is most apparent and these are the counts which are nearest to those at present produced in that centre, there are two considerations which render such a limited application undesirable. The first of these is that in addition to the 19·7 million pounds of yarn of counts from 31s to 40s produced in Indian mills, 5·8 million pounds of yarn of counts above 40s are also produced, and, though it is the spinning of medium counts that we desire to encourage in the first instance, it would be inconsistent to limit the benefit of the bounty to counts from 31s to 40s only and thus discourage the spinning of higher counts. The second is that, whilst it is in Bombay, owing to its advantages in respect of climate and of access to suitable raw material, that the largest increase may be expected, there are other centres, more especially Ahmedabad and Madras, which are already producing considerable quantities of yarn of medium counts and which could not equitably be refused the bounty. We, therefore, recommend that the bounty should be given on the production of yarn produced throughout British India of counts of 32s and above. Our reason for fixing the line at counts of 32s is explained below.

An objection which may be raised to our scheme of a bounty is that it proposes to help mills in British India with funds raised in part from Indian States, several of which have their own mills to which the benefits of the scheme are denied. Two possible remedies suggest themselves. One is to include mills in the Indian States in the scheme and the other is to make over to the States, in which there are mills, a proportionate share of the additional revenue derived from imported cloth on the understanding that the sum is expended in aid of the local mills though not necessarily on the same lines as in British India. There are obvious political and administrative difficulties in adopting the first of these suggestions while the latter may seem to anticipate a decision in a matter which, it is understood, has been the subject of representations to the Imperial Government. There is an important difference between the proposed additional duty and other increases in import duties, *viz.*, that, in the absence of compensation, the competition between mills in British India and those in Indian States will be weighted in favour of the former, so that there is a special case for favourable consideration of the second course, without prejudice to the decision which may be arrived at on the broader aspects of the question.

The recommendation for the grant of a bounty on production involves consideration of the probable response in the volume of production that will be secured, in order that some estimate of the cost likely to be incurred may be formed. The imports of yarn of counts from 31s to 40s in 1925-26 were 26·3 million pounds against the Indian mill production of 19·7 million pounds and, of counts above 40s, 7·3 million pounds against 5·8 million pounds, so that, even on the basis of imports of yarn, there is a very large field for expansion. The figures of imports of yarn alone are, however, in reality, of comparatively little importance in this connexion

since, as we have shown, some 40 per cent. of the total imports of cloth into India may safely be estimated to be made from counts 31s to 40s, that is, on the basis of the figures for 1925-26, about 625 million yards or nearly one-third of the total Indian mill production of cloth. The extent to which development in the direction of producing higher qualities of cloth is possible will thus be evident and the question, therefore, mainly resolves itself into one of the extent to which suitable cotton is available and of the possibility of converting it into yarn on an economic basis. We have shown elsewhere that India is at some disadvantage in regard to the local supply of suitable raw material, but it is to be expected that the work of the Indian Central Cotton Committee will effect a rapid improvement in this respect and, in the meantime, such supplies of suitable Indian cotton as are available can, where necessary, be supplemented by imported cotton. In these circumstances, we consider that there is every reason to believe that a very definite stimulus will be given to the production of yarn of higher counts and of cloth made from it, if the bounty is on a scale adequate to support production against foreign competition in the initial stages. The questions for decision are, therefore, the rate of bounty which should be given, the period for which it should be granted and the maximum amount which should be allotted for the purpose.

Explanation of the scheme of bounties

97. After very careful consideration, we have come to the conclusion that a bounty of one anna per pound, or its equivalent, on yarn of 32s and higher counts based on the production of an average of 15 per cent. of the total working spindleage in a mill in British India, would meet the needs of the situation. The spindleage would be calculated quarterly and the bounty would not be given if the average number of spindles employed on the spinning of counts of 32s and over were less than 7½ per cent. of the total spindleage of the mill or if the average count spun was below 34s. The grant of the bounty should be limited to four years.

We now proceed to discuss the details of the scheme. We have elsewhere pointed out that it is in yarn of counts from 31s to 40s that Japanese competition is most severe and, as the advantages derived from double shift working, including a reasonable return on capital, may be placed at 10 per cent., a bounty on the scale we propose which amounts to from 7 to 8 per cent. on the present selling price, added to the protection afforded by the existing 5 per cent. duty, would do much to counterbalance that advantage and to enable Indian mills to hold their own against unfair competition in respect of such yarn. We propose to limit the operation of the bounty to four years, as we consider that the acceptance of the recommendations we have made in regard to internal economies in the industry and the improvement of its organisation should enable it to continue spinning higher counts after that period, especially as by that time the new Factory Law in Japan should have come into full operation and, therefore, the element of unfair competition arising from the employment of female and juvenile labour at night should have been eliminated though the possibility that that arising from longer hours may still remain should not be overlooked. We have fixed the limit of the working spindleage, on the production of

which the bounty can be claimed, at 15 per cent. for two reasons. The first is that the present production of yarn of medium and fine counts is about 25 million pounds, and the limit which we have fixed would allow for an increase in this to about 90 million pounds, apart from the additional output of those mills which may employ a higher proportion of their spindles on counts of yarn of 32s and over. We are of opinion that a production approximating to nearly 100 million pounds would constitute a sufficiently large advance especially when it is remembered that the production of counts of 31s to 40s in India in 1925-26 was almost exactly the same as it was in 1912-13, the figures being 19·7 million pounds against 19·6 million pounds. On the other hand, the limit of 15 per cent. is sufficiently high to permit of suitable adjustment of machinery being made from time to time in the smaller mills to secure efficient working.

It will be noticed that we have used the expression "a bounty of one anna per pound or its equivalent." We have done so advisedly as we are alive to the objections which may be advanced to using output as the basis for calculating the bounty or to adopting the alternative course of calculating the bounty on the average number of spindles employed on the production of yarn of counts of 32s and over. The former is open to the objection that, in order to earn the maximum bounty at the minimum cost of production, the mills may be tempted to spin yarn of the lowest counts on which the bounty can be claimed. Our suggestion that the bounty should not be granted if the average count spun is below 34s would provide against this tendency. If the bounty is based on the number of spindles employed on spinning counts of 32s and over, no encouragement will be given to spinning only the lowest counts on which it can be earned. On the other hand, this system has the drawback that careful scrutiny will be required to ensure that spindles are not used for spinning yarn of counts lower than 32s. Another objection to using spindleage as the basis for calculating the bounty is that this may tend to encourage the spinning of finer counts, that is, of counts above 40s from imported cotton, whereas it is the object of our scheme to promote the development of the production of medium counts. For this Indian cotton is already available in considerable quantities and the amount of it should increase with some rapidity as the result of the work of the Indian Central Cotton Committee so that the dependence on imported cotton for medium counts should not be extensive or lasting. Whichever basis is adopted, whether that of output or number of spindles, it should not be difficult to devise means of overcoming the drawbacks latent in either alternative, but we favour the grant of the bounty on the basis of production. We would, however, recommend that the question of the basis which is likely to prove the more satisfactory in practice should be referred to the representatives of the industry. This is a course of action which we would ourselves have adopted had we not thought it undesirable at an advanced stage of our deliberations to enter into a discussion with them which could not have failed to make public the nature of the recommendations we proposed to make. One further point which requires explanation is the minimum of 7½ per cent. proposed for the spindleage on which the

bounty should be given. We have proposed this as we do not consider it desirable that assistance should be given to merely half hearted efforts.

Although our object is to promote the development of the spinning of counts above 30s, we would fix the lowest count on the production of which the bounty should be granted at 32s in order to ensure that the bounty is not claimed for any yarn of counts 30s or below. Even with this safeguard an inspecting staff will be required to make sure that the bounty is actually claimed only on the stipulated counts of yarn. It will also, in our view, be necessary to supplement inspection by penal provisions and the penalty for any malpractices should be the refusal of any bounty, earned on the production of the current quarter with or without the refusal of the bounty for a further period of three months. We give below the details of the staff which we consider would be required for the purpose :—

—	Total number of mills working and idle	Staff required
Bombay Presidency ..	172	One Chief Inspector on Rs. 1,000 with five Inspectors on Rs. 800 each.
United Provinces, Delhi, the Punjab and Ajmere-Merwara ..	33	One Inspector on Rs. 800.
Madras	17	One Inspector on Rs. 800.
Bengal	15	One Inspector on Rs. 800.
Central Provinces and Berar	10	One Assistant Inspector on Rs. 500.

The total cost of the inspecting staff required would thus be Rs. 94,800 annually to which has to be added provision for office staff and travelling allowance which we estimate would bring the total annual cost up to Rs. 1½ lakhs.

The number of mills and the area to be covered by the Inspector we suggest for the United Provinces, Delhi, the Punjab and Ajmere-Merwara would appear disproportionately large, but the mills in these Provinces are those which are least likely to take advantage of the bounty.

Suitable arrangements would be necessary for the payment of the bounty which should, in our view, be payable on the production of a certificate signed by the Inspector concerned.

If the fullest advantage of the bounty is taken, that is, if 15 per cent. of all the spindles in India is devoted to the spinning of counts of 32s and over, we estimate, on the basis of an average production of 4 ounces per spindle per day, that the total annual output would be about 90 million pounds, which would involve a bounty of Rs. 60 lakhs annually. It is not to be expected, however, that all mills will be in a position to take full advantage of the bounty. In these circumstances, we do not anticipate that the actual output on which the bounty can be claimed will exceed 60 million pounds annually over the whole period which would

involve an average bounty of about Rs. 37½ lakhs annually. We deal subsequently with the question of the provision of funds for the bounty and the administrative staff required.

Examination of possible objections to the scheme

98. We are fully alive to the technical and administrative difficulties which have to be overcome, before the scheme we have outlined above, can be put into operation but the objections to an increased duty on yarn, which appears to us the only alternative, are so great that we consider it essential that every effort should be made to overcome them. That they are not insuperable is shown by the fact that a similar and even more elaborate scheme is already in operation in Queensland. Our scheme is a modest one and we do not claim for it that it is intended to do more than stimulate and supplement initiative on the part of the industry itself. This will explain why, apart from the limits imposed by considerations of finance, we have recommended that the bounty should be granted on a proportion only of the total spindleage that may be employed on the spinning of higher counts. We do not consider that it would be reasonable to expect the industry in four years to make changes in machinery and to incur additional expenditure beyond this limit, especially when it is remembered that the estimated output, if the maximum amount of the bounty is claimed, should be sufficiently large to meet practically all the demand for the class of goods turned out. The scheme is based on the needs of the whole industry and, whether State aid is given in the form of a bounty or of an additional import duty, the enterprising few, who are in advance of their competitors, are bound to lose a part of their advantage and different centres and different mills in the same centre cannot but share unequally in the benefits. This is inevitable and no scheme of State aid, graduated in such a manner as to equalise advantages, has yet been worked out in theory or in practice. We would point out that one great advantage of our scheme is that the position of the handloom industry is not affected. The handloom weaver will continue to get his supplies of yarn without the rise in price which would follow if a duty on yarn were imposed. His position as a seller of cloth is also not affected, as the bounty will not have the effect of lowering prices but will merely prevent or reduce the loss incurred by producers by sale at the prices ruling in the market.

The primary reason for our scheme is the special need of the Bombay section of the industry to develop the spinning of higher counts and it can only be justified if there are reasonable grounds for believing that the results will meet with our expectations. Of the 25·5 million pounds of yarn of counts of 31s and above which were produced in Indian mills in 1925-26, 8·4 million pounds were produced in Bombay, 7·9 million pounds in Ahmedabad, 2·8 million pounds in the Bombay Presidency outside Bombay and Ahmedabad (mainly in Sholapur) and 3·1 million pounds in the rest of India. We do not consider it probable that the mills in the rest of India, other than those in the centres we have mentioned, will, in view of their climatic and other conditions, be in a position to take any great advantage of the bounty. On the assumption

that Bombay does no more than maintain her relative position, her share of the increased output of yarn above 31s would amount to more than 30 million pounds, the conversion of which into cloth would materially reduce the field of competition with the upcountry mills in the coarser cloth. The climatic and other advantages of Bombay should, however, enable the mills in that centre to produce a considerably larger amount, once the requisite impetus has been given. In connexion with the question of raw material we would point out that the production of yarn of higher counts from imported cotton should in no way discourage the cultivation of better varieties of cotton in India but, by establishing a definite and wider market for them, should stimulate it so that, as time goes on, the industry will absorb more and more of home grown cotton of better staple.

Our proposals for a bounty on the production of yarn of counts 32s and over require some further explanation as regards the assistance that would be given to the industry to enable it to meet unfair foreign competition. In view of our finding that this competition extends to both yarn and cloth, it would seem a defect in our scheme that it does not provide for an additional duty on yarn proportionate to the measure of unfairness which has been established. It provides only for a duty on cotton manufactures other than yarn, assistance to yarn being given in the shape of a bounty on the production of yarn of counts 32s and over. No protection is, therefore, given to yarn of counts below 32s and, to this extent, the scheme may be regarded as incomplete.

If our purpose in putting forward the scheme we have outlined above had been merely to safeguard the cotton textile industry against unfair foreign competition, we should have had no hesitation in proposing an additional duty on the imports of yarn as a supplement to an additional duty on other cotton manufactures. We have not, however, confined ourselves to this narrow aspect of the problem. Our scheme is based on a comprehensive survey of the needs of the industry, of the interests of the consumer and of the other interests affected, not the least important of which is the handloom industry. The imposition of a duty on yarn, in addition to a duty on cloth, even if directed against one country only would not only have imposed a double burden on the consumer, but would also have placed the handloom industry at an appreciable disadvantage owing to the increased cost of its raw material. We have preferred, therefore, to assist the industry to meet unfair competition in yarn at the point where that competition is most keenly felt by a measure which, without raising the price of yarn to the consumer, would enable the Indian manufacturer to place the higher counts of yarn on the market without loss, until the reorganisation and the internal economies we have suggested have been effected.

We would further point out that the great majority of the Indian mills have both spinning and weaving departments, so that the absence of direct protection for yarn is, so far as they are concerned, compensated by the additional all round duty on cloth. The fifty mills which have spinning departments only are left without the protection against unfair competition to which they are logically entitled but it must be remembered

that some of them, especially those in the south of India, are very favourably situated in all respects and will be able to derive considerable advantage from the bounty on the production of higher counts. Others, such as those in the United Provinces, are to a large extent protected against the competition of Japanese yarn by distance so that the production of yarn which remains unprotected is limited to a small proportion of the spinning capacity of the country. We hold, therefore, that the balance of advantage, on the whole, is against any increase in the duty on yarn. We are supported in this conclusion by the fact that Japanese competition is much less pronounced in regard to the lower counts, the imports of which as we have shown in paragraph 19 are now very small. At the same time, it must be recognised that conditions in this respect may change and that large quantities of coarse yarn may be placed on the Indian market at prices with which the Indian mills may not be able to compete. The possibility that Japan may, owing to the disturbed conditions in China, seek an outlet for yarn of lower counts in India at such prices cannot be overlooked. Should this happen and, especially, should it happen before the industry has had time to effect the internal economies and the reorganisation we have suggested, we are of opinion that a contingency will have arisen in which an additional duty on yarn would be fully justified.

Our President dissents from the recommendations in this section for the reasons stated in his separate minute.

(b) Aid to combined bleaching, dyeing and printing factory

99. We have suggested that large scale operations in bleaching, dyeing and printing would materially assist the Bombay mill industry, not only to take advantage of the demand in the large home market, but also in developing its export trade. We have pointed out that the establishment of a factory on the scale on which alone operations of this character are likely to prove financially successful is a matter which can only be dealt with by a combination of mills and have estimated the probable cost of such a factory at Rs. 50 lakhs. We cannot but recognise that in present conditions, the establishment of a factory on this scale is beyond the resources of the Bombay mill industry unless State help is forthcoming and, in these circumstances, we would strongly recommend that, if a satisfactory scheme can be put forward by the Bombay mill industry, assistance from Government should be given. Whether this should take the form of a loan free of interest for a period of, say, ten years or of the subscription by Government of capital equal to that subscribed by the public with a guarantee of interest for a period of years appears a matter for consideration in the light of the details of the scheme put forward by the Bombay mill industry. The latter course has a precedent in the action taken by the British Government to promote the development of the beet sugar industry in England. In 1920, a company known as Home Grown Sugar Limited was floated for this purpose with a capital of £300,000. The British Government undertook to subscribe for a number of ordinary shares not exceeding 250,000 at £1 each, equivalent to the number allotted to public subscribers. The

Government further guaranteed interest at 5 per cent. for ten years on the shares allotted to public subscribers and agreed to take no interest on their own shares until the public subscribers had received 5 per cent. Provision was also made for the transfer in due course of the Government shares to the public. It was stated that " the object of the guarantee of the Government is to subsidise the industry during the earlier years as a profitable commercial proposition by ensuring a certain 5 per cent. dividend to the public shareholders, and when so established, to encourage the company to divest itself of Government control consequent upon the investment of State funds in the enterprise."

We have considered the expediency of encouraging the establishment of such a factory at Ahmedabad and other centres, but in view of the special needs of Bombay and of the experimental character of the scheme, we do not, in present conditions, recommend the establishment of more than one factory.

(c) *Export bounties*

100. Apart from the appointment of Trade Commissioners, the only method suggested by the Bombay Millowners' Association, by which those overseas markets for Indian yarn which have been lost could be recovered, the present overseas markets for yarn and piece-goods could be extended and new markets could be opened up, was the grant of an export bounty. In the course of their oral examination, the representatives of the Association stated that they had no specific proposals to make either in regard to the amount of the bounty, the method by which it would be administered or the markets, the development of which would be promoted by the grant of a bounty. Our discussion of the causes of the depression in the industry, as well as the recommendations on the subject of the export trade which we have made elsewhere, will make it clear that we attach very great importance to the development of the export trade in cotton manufactures as a method of relieving the depression but we are not convinced that this development can satisfactorily be assisted by the grant of export bounties. Direct export bounties have become very much less prominent in international trade in recent years and we have shown that no such bounties are granted in Japan. The objections to export bounties have been stated by Dr. Marshall who points out that " export bounties (as contrasted with bounties on production for home and foreign consumption alike) are specially attractive to the industry that receives them. But their cost to the country that pays them is very heavy. The home consumer of the favoured goods is taxed twice ; once in order to provide the bounty ; and once on the price which he pays for the goods." Bounties on exports are thus a burden on the exporting country for the benefit of a particular industry in favour of the foreign consumer who gets, in effect, an abatement of the costs of production to the extent of the bounty. No permanent advantage to a country or even to an industry is gained by the promotion of export trade unless the industry is producing goods which are cheap in comparison with their quality. It is on this basis, as Professor Taussig remarks, that

the very existence and maintenance of exports rest: "All trade promotion, all banking and transportation facilities, all trade agents and embassies, all agitation, all patriotic devotion avail nothing if this fundamental factor be lacking." Export bounties are, in short a definite admission that goods cannot be sold in foreign markets on the basis of their cheapness in comparison with their quality and are thus a present to the foreign consumer at the expense of the home taxpayer. That some lines of Indian cotton manufactures can find a sale abroad on their own merits is shown by the fact, to which we have drawn attention elsewhere, that the increasing export of Indian coloured piece-goods has more than compensated for the diminution in the exports of grey goods though not for the loss of the yarn trade. It is, of course, possible that the sale of Indian goods which could be placed on foreign markets on an economic basis may be handicapped by the want of information or of transport and financial facilities but the remedy for this does not, in our view, lie in the grant of export bounties.

(*d*) *Appointment of Trade Commissioners*

101. We have emphasised that the development of the export trade is a matter of vital importance to the Bombay mill industry and have pointed out that the first essential in this respect is the collection of adequate information in regard to the markets in which there is any prospect of development. We have been greatly impressed by the fullness of the information available in the United States not only in regard to markets in which that country is interested but also in regard to commercial and industrial conditions in foreign countries generally and by the paucity of similar material in India. The disadvantages under which we have been in this respect will be evident from our Report. We, therefore, agree with the view of the Bombay Millowners' Association that this is a defect which should be rectified by the appointment of Trade Commissioners for India in certain countries but are unable to support in their entirety the proposals they have put forward under this head. They have suggested the immediate appointment of six Trade Commissioners, one at Alexandria for Egypt, the Anglo-Egyptian Sudan, Syria, Palestine and Asiatic Turkey; one at Aden for Aden and its dependencies, Eretrea, Abyssinia, British, French and Italian Somaliland; one at Basra for Iraq (Mesopotamia), Persia, Muscat, Trucial Oman and Native States in Eastern Arabia; one at Mombasa, for Kenya, Uganda, Tanganyika Territory, Zanzibar and Pemba and Portuguese East Africa; one at Durban for the Union of South Africa and one at Singapore for the Straits Settlements, Federated Malay States, the Netherlands East Indies, Siam and the Phillippine Islands. We are not convinced that expenditure on the appointment of Trade Commissioners on this scale would be justified by results. We have shown that Mesopotamia, Persia and East Africa are the principal markets for the products of the Bombay mill industry and would, therefore, limit the number of Trade Commissioners in the first instance to two, one at Basra and one at Mombasa.

We consider that, before Trade Commissioners are appointed for other countries, there should be a rapid survey of the potentialities of the markets for Indian manufactures in those countries in order that it may be ascertained where permanent Trade Commissioners are likely to prove most useful. We would suggest that this survey should be undertaken by a mission of two, one of whom would be an official and the other a nominee of the Bombay Millowners' Association, the expenses of the mission to be borne by Government.

Our proposals involve the revival of the appointment of a Trade Commissioner in East Africa. The Bombay Millowners' Association claim that they made full use of the Trade Commissioner in East Africa when that appointment existed and state that, acting on his reports, certain mills sent representatives to East Africa to push their trade there. There has, as we have shown in the preceding chapter, been a slight improvement in the trade with East Africa in recent years, but we are of opinion that this would have been far more marked, if the Millowners' Association had been in a position to take combined action instead of leaving the matter to be dealt with by individual members. We are, therefore, strongly of opinion that the appointment of Trade Commissioners should be made conditional on the acceptance by the Bombay Millowners' Association of our recommendation that a strong sub-committee of the Association should be constituted whose sole function it would be to deal with matters connected with the export trade and with which the Trade Commissioner would be in close touch.

We are also of opinion that it is even more important in the interests of the Bombay mill industry that it should have its own representatives in the principal export markets who need not be on the staff of the Indian Trade Commissioner but would work in touch with him. We consider that, in the present condition of the industry, there is justification for Government aid in this respect and would, therefore, suggest that half the expenditure incurred by the Association on such agents should be met for four years by a grant of an amount from Government up to a maximum of Rs. 25,000 annually.

We agree with the Bombay Millowners' Association that the first task of the Trade Commissioners should be to make a general survey of the needs of the countries to which they are appointed and an examination of the possibility of Indian mills supplying a greater portion of their requirements. Their reports should also include detailed information in regard to the customs duties imposed, shipping facilities, dock charges and trade facilities generally.

(*e*) *Subsidised shipping freights*

102. In connexion with the development of the export trade, the Bombay Millowners' Association suggested that the Government of India, following the example of Japan, should " subsidise shipping lines to enable them to quote cheap rates to the merchants with a view to increasing the export trade." In considering this proposal, we have been at the disadvantage that the Millowners' Association were not able to put before us any

concrete suggestions either in regard to the lines to which a subsidy should be given or the amount of the subsidy. They were also unable to furnish us with any information as to the extent to which a reduction in the present level of freight rates would help the industry. It is also not clear whether they desire that the subsidy should be given to existing services or for the establishment of new services to markets with which there is no direct communication at present. There are already regular services from Bombay to the three principal export markets for the products of the Bombay industry, Persia, Mesopotamia and East Africa, as well as to Egypt and the Levant which take smaller quantities of Indian cotton manufactures.

In these circumstances, we are unable to make any recommendation under this head as while we are not opposed, in principle, to the grant of subsidies, we are unable to point out where the grant of such subsidies would prove of benefit to the industry. We would suggest that the question should be one of the first to be investigated by the Trade Commissioners, whose appointment we propose, and should also form one of the subjects of enquiry by the commercial mission whose appointment we have also suggested. It cannot, however, be overlooked in this connexion that there is no purely Indian owned line which could usefully be subsidised in this way.

The Bombay Millowners' Association further suggested that the Government of India should bring pressure to bear on the steamship companies with a view to reducing the shipping freights from Bombay to Madras, Calcutta, Singapore, Basra, Zanzibar, Mombasa, Port Said and the Levant and all other export markets. This appears to us to be a matter for the Millowners' Association rather than for Government. Combined action on the part of the Association would, as it has done in the case of the Japan Cotton Spinners' Association, place it in a much stronger position to negotiate with shipping lines both in regard to outward freights on manufactured goods and inward freights on raw cotton, mill stores and machinery.

(*f*) *Railway freights*

103. Another method by which the Government of India could assist the industry, which was suggested to us by the Bombay Millowners' Association, was the reduction in the railway freights on Indian mill-made goods to Calcutta, Delhi, Cawnpore, Lahore, Amritsar and other piece-goods and yarn markets. A general reduction in railway freights would benefit the industry to some small extent, but what the Bombay Millowners' Association desire is preferential treatment for goods of Indian manufacture over imported goods. It is unnecessary to discuss this proposal at any length as, even if a policy of discrimination in favour of Indian manufactures were considered desirable on general grounds, the difficulties in the way of applying it to the cotton textile industry appear to us insuperable. In order to prevent fraud, an examination by the railway authorities of all packages on which the lower rate of freight was claimed would be essential, in order to ensure that they were genuinely

of Indian manufacture and this is, in itself, sufficient to rule the proposal out of serious consideration. Bombay already has a considerable advantage over upcountry centres in the matter of railway freight as rates from Bombay to such important consuming centres as Calcutta, Delhi, Cawnpore, Amritsar, Madras and Madura have been forced down by the competition of alternative sea or railway routes. We received complaints from Ahmedabad, Delhi and Sholapur in regard to the favoured position of Bombay in this respect. Their main request was that the rate per mile from their centre to the principal consuming markets should, in no case, be higher than the minimum rates from the port towns to such centres. We do not consider ourselves called upon to subject these requests to detailed examination as the proper body to which to represent any grievances, which are felt in this respect, is obviously the Railway Rates Advisory Committee which has been constituted for this specific purpose. We have, therefore, no recommendation to make under this head.

(g) Railway sidings

104. The Ahmedabad Millowners' Association, in the course of their oral evidence, represented to us that the provision of railway sidings to mills would remove a handicap to the mill industry in Ahmedabad and requested that they might be granted sidings on the terms suggested by the Indian Coal Committee for collieries. They refer to the recommendation of that Committee that any grievance which might be felt, when the refusal of a railway to provide a siding is based merely on doubts whether it would prove remunerative, would be removed if the applicant were permitted to put in his own siding on the terms which apply to private sidings. While we are of opinion that it is desirable that the cotton mill industry should be given all reasonable facilities in regard to the provision of sidings, it would seem that the Ahmedabad Millowners' Association are under some misapprehension as to those which already exist. We have obtained from the B. B. and C. I. Railway Company a copy of the agreement, under which the Company undertakes the construction, maintenance and working of sidings to mills and factories and which shows that the Company is prepared to provide such sidings on conditions which appear to us suitable. The Company, not unnaturally, reserves the right to decline to provide a siding if it considers that the traffic over it will be insufficient to reimburse it for the expenditure involved on account of interest, depreciation and maintenance on that portion of the line which is laid at its expense, but we are informed that sidings have occasionally been provided if the applicant undertakes to bear such expenditure. In these circumstances, we consider that the present facilities in regard to sidings which are open to the Ahmedabad mill industry are sufficient and would suggest that the industry should take greater advantage of them.

(h) Fumigation charges

105. As mentioned, in Chapter X, it was represented to us that one obstacle to the greater use of American cotton in India is the heavy charges which were levied on the fumigation of this

cotton, since December 1925, in order to prevent the entry of the boll weevil into this country. These charges amount to Rs. 3-6-0 per bale in the dry season and Rs. 4-14-0 in the monsoon. Of the charges levied in the dry season, Re. 1-4-0 represents the charge for fumigation, four annas the payment to the Bombay Port Trust for the additional staff and other facilities required and Re. 1-14-0 the charge for transport. The corresponding figures for the monsoon are Re. 1-10-0, Re. 1-6-0 and Re. 1-14-0 respectively. We understand that the Indian Central Cotton Committee has recommended that the charges should be reduced to Rs. 3-1-0 in the dry season and Rs. 3-12-0 in the monsoon season and that these proposals are at present under the consideration of the Government of India. The following table shows the imports of American cotton into Bombay for the cotton years, September to August, from 1900 to 1926.

TABLE LXXVIII

Years	Bales of 500 lbs. each	Years	Bales of 500 lbs. each
1900-01 ..	9,860	1911-12 ..	177,307
1901-02 ..	5,132	1912-13 ..	28,497
1902-03 ..	3,289	1913-14 ..	1,844
1903-04 ..	108	War period—Imports negligible.	
1904-05 ..	46,138	1920-21 ..	64,884
1905-06 ..	16,677	1921-22 ..	18,447
1906-07 ..	16,392	1922-23 ..	1,305
1907-08 ..	37,527	1923-24 ..	2
1908-09 ..	10,731	1924-25 ..	7,565
1909-10 ..	1,466	1925-26 ..	22,054
1910-11 ..	5,594		

It will be seen that, in normal years, the burden involved in the charges for fumigation would be very small, but in a year such as the present, when the total imports will probably amount to about 150,000 bales, it is a very appreciable one. The charges are levied in the interests of the cultivators of cotton and, in these circumstances, we are of opinion that they should be borne by general revenues. It is impossible to estimate the financial effect of this recommendation in view of the very fluctuating figures of imports. In years in which the prices of American and Indian cotton are at their normal parity, the amount involved would not be large, but much will depend on the extent to which the Bombay mill industry acts on our recommendation that it should make more extensive use of American cotton.

(i) Abolition of company super-tax

106. Among the proposals, put forward by the Bombay Millowners' Association was that the company super-tax which they consider has been a hindrance to the development of the industry and is a conspicuous form of double taxation, should be abolished. With the merits of this form of taxation we are in no way concerned. As regards its effect on

the cotton mill industry, it is impossible to see how a tax which is only payable on profits, and then only when those profits exceed Rs. 50,000, can in any way hamper the development of an industry or exercise a depressing effect on it. No case can, in our view, be made out for the special treatment of the cotton textile industry in this respect.

Financial aspect of proposals

107. Of our proposals in regard to State aid, those which involve either additional expenditure or loss of revenue are the following :—

(1) *A bounty on spinning yarn of counts 32s and above.*—We estimate the maximum amount that would be required to meet this at Rs. 60 lakhs per annum for four years, a total of Rs. 2·40 crores. We estimate the cost of the staff which would be required to administer the bounty at about Rs. 1·50 lakhs annually, a total of Rs. 6 lakhs for four years bringing the total amount required in connexion with the bounty, to Rs. 2·46 crores.

(2) *The remission of the duty on mill machinery and mill stores.*—We estimate the maximum loss of revenue under this head as Rs. 50 lakhs annually. If this concession continues for the same period as the grant of the bounty, that is for four years, the total loss of revenue will be Rs. 2 crores.

(3) *Aid to the establishment of a combined bleaching, dyeing and printing factory.*—We are not in a position to estimate the exact financial effect of this proposal as the nature and extent of the aid will depend on the character of the scheme put forward by the Bombay mill industry.

(4) *The appointment of Trade Commissioners in Basra and Mombasa and survey of trade conditions in overseas markets.*—The cost involved in the appointment of Trade Commissioners should not, in our view, exceed Rs. 1 lakh per annum and that of the proposed survey Rs. 50,000.

(5) *A grant to supplement expenditure incurred by the Bombay Millowners' Association on representatives in overseas markets.*—We have suggested that this should not exceed Rs. 25,000 per annum for four years, a total of Rs. 1 lakh.

(6) *Remission of fumigation charges.*—We have given reasons why it is not possible to estimate the loss of revenue involved in this proposal with any degree of accuracy.

(7) *A grant-in-aid towards the establishment of Trade Schools in Bombay.*—We do not consider it necessary to put forward any definite figure under this head.

As has been already stated, the majority of us propose that the funds required to meet the cost of the bounty and of our other proposals, which involve expenditure or loss of revenue, should be raised by a small additional import duty on all cotton manufactures other than yarn. The imposition of such a duty has a double advantage. It will not only assist the industry against unfair competition from Japan and afford relief against the maladjustment between costs of production and falling

prices, but will also provide the funds required to give a definite stimulus to the development of the industry on the lines we consider desirable. It has the further advantage, as we have already pointed out, that it affords protection against unfair competition without the complications which would arise from discrimination against particular countries or from the enforcement of a system of certificates of origin.

We propose that the additional duty should be fixed at 4 per cent. We have adopted this figure for two reasons. In the first place, it is the most suitable rate, with reference to the cost of our proposals. The proceeds of such a duty, if levied for three years, will bring in revenue which is more than sufficient to cover this. In the second place, it exactly offsets the actual advantage, though not the advantage if a reasonable return on capital is also included, in cost of manufacture which we have estimated that the Japanese industry derives from double shift working. The lower prices of imports, due to the recent heavy fall in the price of the raw material, should to some extent be set off by an increase in their volume owing to the increased consumption both of Indian and imported manufactures which should follow on the fall in prices. If allowance is made for the operation of these factors, we estimate that the additional duty should in the period of three years from 1927-28 yield about Rs. 5·25 crores in all. The main items to be met from this amount are the cost of the bounty and its administration and the loss of revenue due to the abolition of the duty on machinery and mill stores. We have estimated the one at Rs. 2·46 crores and the other at Rs. 2 crores, a total of Rs. 4·46 crores. The balance, Rs. 79 lakhs, would thus be much more than sufficient to cover expenditure or loss of revenue in respect of the other items enumerated above.

We cannot too strongly emphasise that the primary purpose of the duty we propose is to provide the funds required to stimulate the production of higher counts of yarn and to protect that production from unfair competition in the manner which, in our view, best avoids inflicting injury on other interests. This is the outstanding argument for a bounty as against an additional duty on yarn.

It is not irrelevant in the present connexion to mention that, in 1922, it was proposed to raise the duty on cotton manufactures other than yarn to the general tariff rate of 15 per cent. and that this proposal received considerable support at the time, though on grounds other than those on which we now propose it.

We have fixed the term of three years for the duty and of four years for the bounty with reference in the one case to the changes which are likely to take place in Japan and in the other to the ability of the Indian industry to do without further State aid. Four years cannot be considered too long a period to bring about development on the lines we have suggested and we consider there is much to be said for continuing the bounty for another year. It is, however, difficult to justify an extension of the duty beyond three years, since the amended Factory Law in Japan should come into full operation in July, 1929, and any

influence on the market of the stocks accumulated, prior to that date, should have disappeared by the end of the official year 1929-30.

It is the conviction of the majority of us that the present conditions in the cotton industry fully justify the increase in the present all round duty other than yarn which we have suggested. One objection to it which may be raised is that it places a heavier burden on the consumer than the range of unfair competition in cloth can be held to warrant. We would again point out that the alternative to extension of the field over which the duty is raised is the imposition of a differential duty on yarn in addition to one on cotton manufactures other than yarn and that, if a reasonable return on capital is included, this would require to be considerably more than 4 per cent. and would result in raising the price of yarn both imported and of Indian manufacture, so that the burden on the consumer would be heavier. Our proposals, on the other hand, involve no increased burden on the consumer so far as yarn is concerned and, in regard to the small additional duty on cotton manufactures other than yarn which we propose, it is fortunate that, at the present juncture, owing to the heavy fall in the price of cotton, the effect of the proposed duty will merely be to retard slightly the fall in the price of cloth which would otherwise ensue and should therefore be imperceptible.

Conclusion

108. Our proposals in this chapter, which we now summarise and which must be regarded as a whole, have been framed with a view not only to help the Indian mill industry against unfair foreign competition but also to facilitate such reorganisation of the Bombay section of it as will place it in a stronger position to meet internal competition. Holding, as we do, that the outstanding needs of the Bombay cotton mill industry are greater diversification of production and the development of its export trade, we have framed our recommendations in this chapter accordingly. In regard to diversification of production, we have proposed that aid should be given to the establishment of a large and up-to-date dyeing and bleaching plant in or near Bombay, and the majority of us have also proposed the grant of a bounty on the spinning of higher counts of yarn. In regard to the development of the export trade, we have recommended that the State should assist the industry by the appointment of Trade Commissioners in two of its most important overseas markets, by undertaking a survey of the potentialities of those markets and by a subsidy towards the expenses of agents abroad appointed by the Bombay Millowners' Association. We have further recommended that the industry should be relieved of certain burdens of varying magnitude and area of incidence such as the duty on machinery and mill stores, fumigation charges and part of the town duty on cotton entering Bombay and that it should be assisted in training its operatives by the establishment of Trade Schools.

The rigour of unfair foreign competition will further be reduced by the small increase in the duty on cotton manufactures other than yarn

but we would repeat our firm conviction that unfair foreign competition, severe as it is, is by no means the outstanding menace to the prosperity of the Bombay mill industry. The problem which presses equally for solution is that of the increasing competition of the mills in other centres and our recommendations in regard to the reorganisation of the industry in Bombay and the internal economies which it should effect have been framed as a contribution towards its solution. The State aid and the changes in the tariff which we have proposed can, in themselves, prove no more than palliatives. They will indeed fail in their purpose if they do not succeed in stimulating and encouraging the industry to undertake reorganisation and effect economies on the lines suggested. They cannot give, nor are they intended to give, anything more than the minimum of financial assistance during the period of reorganisation and adjustment to changed conditions. A great industry is in a serious condition, and our proposals have been inspired by the belief that, in spite of a comparatively long spell of adversity, it still retains sufficient vitality and capacity for self-help which only require to be stimulated into action and this stimulus our modest scheme of State help is calculated to provide.

CHAPTER XIII

SPECIAL APPLICATIONS FOR TARIFF CHANGES

(*a*) *Special protection for hosiery*

109. The Bombay Millowners' Association did not mention hosiery in their representation to us, but we received three applications for special protection to this branch of the textile industry, from the Ahmedabad Fine Knitting Company, the Gujarat Hosiery Factory and from the Hosiery Manufacturers' Association of Bengal. The last of these was received at a very late stage of our enquiry when the hearing of oral evidence had closed.

In Chapter IV, we have given statistics of imports of hosiery into India since 1910-11 which show that the bulk of these imports are of Japanese origin and that, of the total value of hosiery imported into India in 1925-26, amounting to Rs. 140 lakhs, goods to the value of Rs. 111 lakhs or 80 per cent. came from Japan. We have there pointed out that it is impossible to compare the outturn and the value of the Japanese imports with those of Indian production. The information available in regard to the production of hosiery in India is very incomplete. So far as we have been able to ascertain, hosiery is manufactured in three cotton mills only, one in Ahmedabad, one in Cawnpore and one in the Mysore State. The statistics of the outturn of hosiery given in the Monthly Statistics of Cotton Spinning and Weaving in Indian Mills include not only the production of these mills but also that of a number of small factories worked by mechanical power. Seven of these, of which two are not working, are reported to be in Madras, seventeen in Bengal and five in Bombay. It would appear that there is an appreciable production of hosiery in Bengal by machines operated by hand. In the main, therefore, the hosiery industry in India is little more than a cottage industry which is still the case to a large extent in Japan where, as in India, it is reported to be almost impossible to secure reliable statistics of the total number of factories engaged in it. The number of factories engaged in the knitting of cotton, wool, silk and other materials in Japan was returned in 1924 as 1,973 and the number of operatives employed in them as 8,027 men and 11,495 women. Many of these factories are, however, very small as will be obvious from the fact that the number of operatives employed in them averages less than ten. The factories are mostly centred in the Tokyo and Osaka districts, those in the former catering principally for the home market and those in the latter for the export trade. As a general rule, work is carried on by day only, the average number of hours worked being about eight or

nine. The average daily wages paid in March, 1926 were, according to the Osaka Chamber of Commerce Journal, 1·68 yen for men and 1·00 yen for women.

It is a matter for regret that the application from the Hosiery Manufacturers' Association in Bengal reached us too late to permit of our investigating the conditions under which the industry is carried on in Bengal which appears to be the chief centre of it in India. It will, however, be obvious, from the facts stated above, that no special case can be made out for the protection of this industry on the ground of unfair competition from Japan, since the bulk of the Japanese output is not produced in cotton mills but in small factories in which the conditions of labour are in no way inferior in respect of night work or hours to those of similar labour in India. The only ground, therefore, which could be advanced for the special treatment of hosiery is that the hosiery industry is an infant industry, the development of which in India it is desirable to encourage. We do not, however, consider it necessary to discuss the desirability of granting protection on this ground at any length, as it appears to us unquestionable that the grant of protection on any scale higher than that applicable to manufactured cotton goods generally would not have the effect that those who have asked for it expect or desire. It would, in our view, furnish a strong incentive to the cotton mills to devote more attention to this line of manufacture than they have done in the past and with their greater resources and higher level of technical efficiency, they would speedily be able to place their products on the market at prices which would drive out of it the products of the small factories in which hosiery is at present mostly manufactured. From the point of view of the cotton mill industry with which we are primarily concerned, there is again no justification for special treatment. Cotton mills in India are in no more unfavourable position in regard to the manufacture of hosiery than they are in regard to any other line of cotton manufactures, in fact less so as the competition here is in the main not the competition of goods which are produced under inferior labour conditions. In these circumstances, we are unable to recommend that hosiery should be treated in any way differently from piecegoods.

(b) Remission of duty on yarn of counts above 40s

110. We also received an application from seven mills in Ahmedabad and one in Bengal for the abolition of the present duty of 5 per cent. on all yarn imported of counts above 40s or, if that is not considered practicable, the grant of a rebate of the duty to all mills using such yarn. The mills which have put forward this proposal are all small mills with from about 200 to 400 looms. They have no spinning departments and confine themselves to weaving the finer qualities of cloth from imported yarn.

In considering the proposal, it is important to note that there is already a substantial production of yarn in India of counts above 40s as compared with the imports of yarn of those counts as will be seen from the following table which gives the imports and mill production in millions of pounds.

TABLE LXXIX

	Imports		Indian mill production
	Singles yarn above 40s counts	Twofold doubles	
1923-24	7·74	4·03	3·26
1924-25	7·64	5·83	5·82
1925-26	6·67	6·19	5·83

The figures of twofold doubles yarn have been given separately as a small fraction of this may be of counts below 40s. The figures of Indian mill production for the first six months of 1926-27 are 5·4 million pounds which is almost equal to the total production for the whole of 1925-26. Of this 2·39 million pounds were produced in Ahmedabad. Detailed figures are not available for the counts above 40s. spun in Indian mills.

It will be obvious from the recommendations we have made in the preceding chapters, that we are unable to support the proposal that the duty on yarn of counts above 40s. should be abolished or that a rebate should be granted to the mills using such yarn. There would, in any event, be no justification, in our view, for any discrimination between the mill industry and the handloom industry in this respect. In the preceding chapters, we have recommended the development of the spinning of higher counts of yarn and the manufacture of cloth therefrom as one means of enabling the mill industry, and more especially the Bombay section of it, to overcome its present difficulties and the majority of us have proposed the grant of a bounty to provide the requisite stimulus in this direction. It would, therefore, be entirely inconsistent with the trend of our Report to propose the withdrawal from the industry at this juncture of such measure of protection in spinning the higher counts of yarn as is afforded it by the present revenue duty of 5 per cent. on all yarn.

It should be mentioned that the mills which have put forward this proposal have, admittedly, benefited to a greater extent than others by the abolition of the excise duty. Their representative stated that under the system of tariff valuations adopted in assessing this duty, it worked out at 7½ per cent. on their finished product.

CHAPTER XIV

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

111. Our conclusions and recommendations may be summarised as follows :—

Chapter II

(1) The most striking feature in the history of the cotton textile industry in India from 1899 to 1922 is the expansion in every direction, especially in weaving (para. 7).

(2) Other important features in the history of this period are the loss of the export trade in yarn, the gradually decreasing dominance of Bombay and the increasing share of Japan in the import trade (para. 7).

Chapter III

(3) The present depression in the cotton textile industry has been and is much more acutely felt in Bombay than in other centres (para. 12).

(4) The mills which have spinning departments only have been affected to a greater extent than mills which have both spinning and weaving departments (para. 12).

(5) The demand for protection has not been as earnestly pressed from other centres as from Bombay and Ahmedabad (para. 13).

Chapter IV

(6) The altered relation between agrarian and general prices since 1920 has contributed to the depression in the industry (para. 14).

(7) The boom and the depression in India have presented all the features which characterise a trade cycle (para. 15).

(8) The course of American cotton prices has contributed to the depression in the industry (para. 16).

Chapter V

(9) The competition of Japanese yarn exercises a depressing effect on the price of Indian yarn (para. 20).

(10) Japanese yarn of 32s counts is being sold at a price which is practically equal to the cost of manufacture alone of yarn of this count in India without any allowance for profit or depreciation (para. 20).

(11) In cloth of the lower counts, that is, in drills and sheetings, Indian mills are able to hold their own and it is, therefore, doubtful whether the Japanese imports in these lines control prices in India (para. 26).

(12) In cloth of counts of 30s and above, the cost of manufacture alone in Indian mills is either practically equal to or higher than the Japanese sale price and Japanese competition, therefore, exercises a depressing effect on the prices of Indian mill production (para. 26).

(13) The depreciation of the Japanese exchange, while it lasted, stimulated exports from Japan to India but Japan now enjoys no special advantage in regard to exchange (para. 30).

(14) Double shift working in Japan gives the Japanese industry an advantage of 4 per cent. on the actual cost of manufacture both of yarn and cloth. This advantage is considerably increased if a reasonable return on capital is included in costs of production (para. 32).

(15) It does not appear that mills in Japan can, as a rule, obtain higher prices in the home market than they can from exports and a charge of dumping in the usual sense of the word cannot, therefore, be substantiated (para. 34).

(16) Conditions of labour in Japan are inferior to those in India in respect of hours and the employment of women and juveniles at night (para. 35).

(17) It must, therefore, be held that there is unfair competition between Japan and India, and that this competition is an important cause of the present depression in the cotton textile industry (para. 35).

Chapter VI

(18) The stabilisation of the rupee at 1*s.* 6*d.* coming as it has done at a time of falling prices, has rendered the problem presented by the disparity between prices and wages in the industry somewhat more pronounced (para. 38).

(19) Over-capitalisation has contributed to accentuate the depression in Bombay (para. 39).

(20) The dividends paid by the Bombay industry during the boom period were unduly high (para. 40).

(21) Except to the extent that defects in the managing agency system such as undue conservatism and lack of initiative have contributed to the present depression, that system cannot be held to be responsible for existing conditions (para. 41).

(22) The use of inefficient machinery cannot be held to have affected the industry to any appreciable extent (para. 42).

(23) Difficulties in arranging finance both by mills and dealers in piecegoods have contributed to accentuate the depression (para. 43).

Chapter VII

(24) The loss of the China trade in yarn is an important cause of the present depression in Bombay (para. 44).

(25) The loss of the export trade in yarn has not been compensated appreciably by an increase in the export of piecegoods (para. 45).

(26) The increasing competition of mills in Ahmedabad and other centres is also an important cause of the present depression in Bombay (para. 46).

(27) Greater attention to diversification of production, more direct contact with consuming centres and greater alertness on the part of commission agents would to some extent have mitigated the severity of the depressions in Bombay (para. 47).

(28) The depression in India has not been accompanied by any decrease in production but over-production cannot be held to be a cause of the depression (para. 48).

(29) Labour costs in Bombay are markedly higher than those in other centres (para. 49).

(30) High labour costs in Bombay cannot be held to have caused the depression but they have undoubtedly accentuated it (para. 49).

(31) High local taxation has added to the difficulties caused by the depression in Bombay (para. 50).

Chapter VIII

(32) Examination of the figures of cost of production in the various centres shows that by far the greatest disability in costs of manufacture from which Bombay suffers in comparison with Ahmedabad and other upcountry centres is in its high costs of labour (para. 52).

(33) Bombay is under substantial disadvantages as compared with other centres in regard to cost of fuel and power, cost of water and higher local taxation, but these appear to be rather more than offset by advantages in regard to cost of stores, of insurance and of office expenses (para. 52).

(34) In regard to supplies of raw material the balance of advantage as compared with other centres is, on the whole, against Bombay (para. 52).

(35) Proximity to local markets is a factor which operates appreciably to the benefit of the mills in upcountry centres (para. 52).

Chapter IX

(36) To the extent that the depression in the cotton textile industry in India is the outcome of the cyclical character of trade, it is not of a permanent nature (para. 53).

(37) It is impossible to express a definite opinion as to how far foreign competition can be regarded as a permanent cause of depression (para. 53).

(38) The loss of the China trade in yarn must be regarded as a cause of depression which is of a permanent character (para. 53).

(39) Whether the increasing competition with the Bombay industry of Ahmedabad and other upcountry centres is a temporary or permanent cause of depression must depend on the steps taken by the Bombay industry to meet it (para. 53).

(40) In regard to the purchase of raw material in Bombay, a single hedge contract is the ideal to be aimed at but, in the meantime, proposals on the lines of the scheme put forward by Messrs. Forbes, Forbes, Campbell and Company for reducing the number of the existing hedge contracts and widening their scope should again be placed before the Representative Committee of the East India Cotton Association (para. 55).

(41) Managing agents would be well advised to employ brokers who do not operate on their own account and who are not themselves in actual possession of cotton (para. 53).

(42) No economies in the cost of fuel and power appear possible in Bombay (para. 56).

(43) A further reduction in the charge for water in Bombay is desirable (para. 57).

(44) Managing agents should exercise the closest supervision over all purchases of stores (para. 58).

(45) The only alternative to a reduction in wages in the Bombay mill industry is increased labour efficiency and it is in this direction that the true line of advance lies (para. 59).

(46) The general adoption in Bombay of the system of maintaining a labour reserve to provide against absenteeism is desirable (para. 60).

(47) The piecework system should be extended to spinners in Bombay and should be accompanied by an increase in the number of spindles allotted to each spinner (para. 61).

(48) The disparity between the wages of spinners and weavers is a matter which demands the attention of the industry (para. 61).

(49) An increase in the number of looms attended by a weaver would tend to economy and give increased earnings to the weaver even when accompanied by a slight reduction in rate (para. 61).

(50) Economies similar to those suggested in the spinning and weaving departments can be effected in the preparatory departments (para. 61).

(51) If the efficiency of operatives is to be improved, it is essential that there should be an improvement in the standard of efficiency of jobbers (para. 61).

(52) Increased efficiency cannot be expected from operatives unless they are provided with suitable raw material. The existing tendency to spin higher counts of yarn than the quality of the cotton warrants causes breakages and increases the work of the spinner and the weaver (para. 61).

(53) The fixation of a definite period of rest to enable operatives to take their morning meal is desirable (para. 62).

(54) Labour should be recruited directly by the officer in charge of the department of the mill which requires it or by a responsible assistant and not by the jobber (para. 63).

(55) The practice of compelling weavers to take over cloth spoilt by defective workmanship at its full value should be abolished (para. 64).

(56) Fines levied should be used for the benefit of the operatives as a body (para. 64).

(57) The standardisation of wages throughout the Bombay mill industry would undoubtedly strengthen the position of the industry. A suitable scheme could only be drawn up in consultation with the representatives of labour (para. 65).

(58) Blocks of the chawls built by the Bombay Development Department might be taken over and administered by groups of mills or by the Bombay Millowners' Association as a body (para. 66).

(59) The town duty of one rupee per bale should be reduced to eight annas per bale on all cotton consumed by the Bombay mills (para. 66).

(60) More attention to welfare work on the part of the Bombay mill industry is desirable when financial conditions permit (para. 67).

(61) Certain alterations in the courses in cotton textiles in the Victoria Jubilee Technical Institute are desirable (para. 68).

(62) The provision of more facilities for technical education of mill operatives especially jobbers is essential to any improvement in efficiency. The early establishment of Trade Schools in Bombay is, therefore, desirable (para. 68).

(63) The preparation and distribution of technical handbooks, in the vernacular, plentifully illustrated and drawn up on suitable lines, for the use of jobbers and operatives should be undertaken (para. 68).

(64) The high labour costs in Bombay cannot be reduced by the introduction of the Northrop looms but the experiments with the Whittaker attachment should be continued (para. 69).

(65) Bombay is not a suitable centre for the adoption of the double shift system since the city is already very congested and the presence of the additional labour force which would be required would increase this congestion (para. 70).

(66) The desirability of imposing additional assessment on 'toka' lands in graduated stages when the present assessment expires should be considered (para. 72).

(67) The Bombay Millowners' Association should consider the possibility of undertaking fire insurance for its members (para. 73).

(68) No economies under the head of technical and supervising staff can be suggested but the proper training of such staff should be insisted on in all cases (para. 74).

(69) Depreciation including any amount which may be in arrears, should invariably be regarded as a first charge on profits (para. 75).

(70) Mill stocks should in all cases be checked at audit (para. 76).

(71) The practice of employing an auditor who is related to the managing agent is open to objection and should be discontinued (para. 76).

Chapter X

(72) The Bombay Millowners' Association should take immediate steps to obtain a full range of samples and to maintain a full record of prices of all imported cotton manufactures which compete with Indian goods (para. 77).

(73) The Bombay Millowners' Association should constitute sub-committees to deal with questions relating to export and home markets, finance, labour, registration of labels and numbers, supply of raw material and woollen mills (para. 77).

(74) Combined action should be taken by the Millowners' Associations and other bodies interested to ensure that the quality of cloth sold under a particular number is maintained (para. 78).

(75) At least one member of each firm of managing agents should have received technical training (para. 79).

(76) The practice of investing the surplus funds of mills with firms of shroffs is undesirable and should be discontinued as should that of lending the funds of one concern to another under the same managing agency (para. 79).

(77) Writing down of capital in the Bombay mill industry is a matter which calls for further attention (para. 80).

(78) Bombay should utilise to the full its natural advantages in the matter of climate and situation for the production of goods of higher counts than it has done in the past (para. 81).

(79) The difficulties in regard to suitable raw material are not insurmountable, and can be overcome temporarily by greater use of American and African cotton (para. 81).

(80) The charges levied for fumigation are a handicap to the use of American cotton (para. 81).

(81) In a great expansion in the Bombay mill production of bleached, coloured, dyed and printed goods lies one remedy for the depression in the industry in Bombay (para. 82).

(82) There is no reason why the printing industry should not be successfully established in India, provided the operations are on a sufficiently large scale, and the latest developments in technique are utilised to the full. It is necessary, therefore, that the matter should be taken up by a combination of mills (para. 82).

(83) A large factory for combined printing, bleaching and dyeing should be established in or near Bombay and there would seem to be great advantages for placing it at Ambernath (para. 82).

(84) Greater attention to the quality of production is desirable (para. 83).

(85) The practice of selling yarn under double numbers is undesirable, and should be discontinued (para. 83).

(86) Both the system of sales on commission and that of selling through the mills' own shops have advantages and it is not possible, therefore, to say which is preferable (para. 84).

(87) Representatives of mills should visit the consuming centres from time to time in order to acquaint themselves closely with the character of demand (para. 84).

(88) The Bombay Millowners' Association should arrange for trade correspondents in the principal consuming centres (para. 84).

(89) Managing agents should not act as guarantee brokers for the mills they control (para. 84).

(90) It is desirable that the finance of the cotton industry should be investigated and that an enquiry into the possibility of introducing the warehouse system into India should form part of this investigation (para. 85).

(91) The development of the export trade of Bombay would be a valuable means of relieving the depression (para. 86).

(92) Coloured and dyed goods form the largest part of the exports of piecegoods and further expansion of this side of the Bombay industry would, therefore, strengthen its position in the foreign market (para. 86).

(93) It is essential to the development of the export trade of Bombay that adequate information regarding foreign markets should be available and that the industry should be in a position to utilise it (para. 86).

(94) The industry should examine the feasibility of a combination of the mills interested in the export trade for the purpose of arranging such details as manufacture of lines required, allocation of quantities among the members and prevention of imitation of marks and numbers (para. 86).

(95) The statistical information regarding the industry should be improved in certain respects (para. 87).

Chapter XI

(96) High protective duties on the scale advocated by the Bombay and Ahmedabad Millowners' Associations cannot be justified (para. 90).

(97) The claim for a protective duty of 4½ per cent. to enable the Indian mill industry to make provision for depreciation of plant and machinery cannot be admitted (para. 91).

(98) No justification exists for a differential duty against Japan on the ground of depreciated exchange (para. 91).

(99) The case for a small all round increase in the import duty on cotton manufactures other than yarn is strengthened by the undoubted temporary handicap imposed on the industry by the stabilisation of the rupee at 1*s.* 6*d.* (para. 91).

(100) A moderate measure of protection both for yarn and cloth can be justified for such period as labour conditions in Japan continue inferior to those in India (para. 92).

(101) An additional duty on yarn is undesirable in view of its effect on the handloom industry (para. 92).

(102) A differential duty against Japan is undesirable (para. 92).

(103) The proposal to give protection against unfair competition from Japan in the form of specific duties levied on the class of goods which are in the main imported from that country is open to several objections and cannot be supported. Protection to the industry should, therefore, be given in the form of an addition to the present duty on all cotton manufactures other than yarn (para. 92).

(104) No justification for an export duty on cotton can be established (para. 93).

(105) The concession of free entry enjoyed by cotton mill machinery and mill stores prior to 1921 should again be granted (para. 94).

(106) The most satisfactory method of working the concession so far as stores are concerned would be to grant total exemption for stores which can only be used in the mill or handloom industries and to exempt other stores from duty if imported direct by a mill or to grant a refund on them when they are purchased from "stockists." Two lists have been drawn up accordingly (para. 94).

Chapter XII

(107) A stimulus to the production of goods of higher quality can best be given in the form of a bounty on the spinning of higher counts of yarn instead of by an additional import duty on yarn (para. 96).

(108) A bounty of one anna per pound, or its equivalent on yarn of 32s and higher counts, based on the production of an average of 15 per cent. of the total working spindleage in a mill in British India would meet the situation (para. 97).

(109) The operation of the bounty should be limited to four years (para. 97).

(110) The bounty should be limited to the production of 15 per cent. of the spindleage in any mill and would not be given unless the total spindleage employed on higher counts exceeded 7½ per cent. and the average count spun was not below 34s. (para. 97).

(111) One great advantage of this scheme is that the position of the handloom industry will not be affected (para. 97).

(112) As the majority of Indian mills have both spinning and weaving departments, the absence of protection for the lower counts of yarn is compensated by the additional all round duty on cloth. Contingencies may arise in which an additional duty on yarn would be justified (para. 98).

(113) If a satisfactory scheme for a combined bleaching, dyeing and printing plant can be put forward by the Bombay mill industry, assistance from Government should be given (para. 99).

(114) No justification can be established for the grant of export bounties (para. 100).

(115) Two Trade Commissioners should be appointed, one at Basra and one at Mombasa (para. 101).

(116) Before Trade Commissioners are appointed for other countries, a rapid survey of the potentialities of the markets in those countries should be undertaken by a small mission (para. 101).

(117) It is most important in the interests of the Bombay mill industry that it should have its own representatives in the principal export markets. Expenditure by the Bombay Millowners' Association in this respect should be supplemented for four years by the grant of an equal amount from Government up to a maximum of Rs. 25,000 annually (para. 101).

(118) The question of subsidising shipping freights should be investigated by the Trade Commissioners and by the commercial mission suggested in (116). Combination on the part of the Bombay Millowners' Association would place it in a much stronger position to negotiate with shipping companies (para. 102).

(119) The difficulties in applying a policy of discrimination in regard to railway freights to the cotton textile industry are insuperable (para. 103).

(120) Specific complaints in regard to inequalities of railway freights are a matter for investigation by the Railway Rates Advisory Committee (para. 103).

(121) The existing facilities in the matter of railway sidings in Ahmedabad are sufficient (para. 104).

(122) The charges for the fumigation of American cotton entering India are levied in the interests of the cultivators of cotton and should be borne by general revenues (para. 105).

(123) No case has been made out for the abolition of company supertax (para. 106).

(124) The cost of those proposals which involve expenditure should be met by an additional import duty of four per cent. on all cotton manufactures other than yarn (para. 107).

(125) This duty should be imposed for a period of three years (para. 107).

Chapter XIII

(126) No justification has been established for the special treatment of the hosiery industry (para. 109).

(127) The abolition of the duty on yarn of counts above 40s or the grant of a rebate of the duty to mills using such yarn cannot be supported (para. 110).

Acknowledgments

112. We wish to place on record our appreciation of the help which has been given us by our Technical Expert, Mr. N. G. Majmudar, and our Secretary, Captain D. F. Keegan. Mr. Majmudar's assistance has naturally been of the greatest value to us in dealing with the technical aspects of our enquiry but, in all branches of it, we have benefited greatly from his intimate knowledge of the cotton textile industry. Our thanks are also due to our Superintendent, Mr. Dwarka Das Manaktala, our Statistical Assistant, Mr. F. A. Rego, and the remainder of our clerical and reporting staff on whom our enquiries have imposed a heavy strain owing to the long hours and absence of holidays necessitated by our anxiety to submit our Report at the earliest possible date. We would also express our acknowledgments to the Manager, Government Central Press, Bombay, for the expedition and efficiency with which the work connected with the printing of our Report has been carried out.

In conclusion, the majority of us wish to express our deep regret that we have been unable to obtain the President's support for our scheme of a bounty on the spinning of yarn of higher counts. We wish to emphasise that this is the only point of importance on which there is any difference of opinion between the Members of the Board and that in every other respect, apart from one or two matters of analysis or calculation, there has been complete unanimity which has found expression in the presentation of a single Report. We would also like to express our sense of obligation to the President for helpful discussion in the drafting of that part of the Report with which he finds himself in disagreement.

F. NOYCE,*
President.

HARI KISHAN KAUL,
Member.

N. S. SUBBA RAO,
Member.

DENIS F. KEEGAN,
Secretary.

21st January 1927.

* Subject to a minute of dissent.

MINUTE OF DISSENT

I am compelled to differ from my colleagues in regard to the proposal for the grant of a bounty on the production of yarn of counts 32s and over. I do so with regret as I agree with them that a development in this direction would be to the advantage of the Bombay industry. The disagreement on this point is an illustration of the difficulties of the problems with which we have been confronted.

I am not convinced that an artificial stimulus to the development of the spinning of higher counts is either necessary or desirable and I, therefore, object to the proposed bounty on principle and because I consider that the administrative difficulties in working the scheme satisfactorily are so great as to be insuperable. My colleagues have explained that the main justification for the bounty lies in the special needs of Bombay. I hold that a long established industry such as the cotton textile industry in Bombay should need no stimulus at the expense of the general tax-payer to a development which is in its own interests. If the Bombay mill industry is convinced by our analysis of the present position in the Report and by the arguments we have there adduced in favour of diversification of production, I cannot but believe that it has the energy and initiative to embark on such a development without the stimulus of a bounty. If it is not so convinced, the small bounty proposed will be without effect.

My colleagues have explained the reasons which prevented evidence being taken as to the practicability of their proposals or the efficacy of the safeguards they suggest but I regard it as most unfortunate that it has not been possible to discuss the probable effects of their scheme with those best qualified to express an opinion on them. That the scheme might have undesirable effects is implicitly admitted by the proposal that the bounty should be limited to the production of 15 per cent. of the spindles in a mill, in order not to overweight the production of the higher counts. If the production of higher counts is a desirable object in itself, it appears to me illogical to impose this limitation.

I attach more importance than do my colleagues to the objection that the bounty would do little or nothing to assist the mills which have spinning departments only. There are fifty of these in India and as we have pointed out, they are in a worse position than those which have both spinning and weaving departments. If, as we have held, the price of Japanese yarn exercises a depressing effect on the price of Indian yarn, a bounty on the production of yarn of higher counts will do nothing to rectify matters in this respect. The depressing effect on the price of all yarn as the result of foreign competition will continue to be felt. All that will happen will be that the mills which have spinning departments only will receive a bounty on at the utmost, fifteen per cent. of their production and will be in no stronger position to withstand foreign competition on the remaining eighty-five per cent. The bounty, therefore,

will in effect, be no more than a grant in aid to reduce losses or to increase profits. The position of the spinning mills in respect of foreign competition will in no way be strengthened thereby.

The greatest problem before the Bombay mill industry, in my view, is that presented by the increasing competition of mills in Ahmedabad and other upcountry centres. Of the 25·6 million pounds of yarn over 30s spun in Indian mills in 1925-26, only 8·4 million pounds or less than one-third were produced in Bombay. The corresponding figures for the first six months of 1926-27 were 19·39 million pounds and 6·7 million pounds respectively. It would thus seem that the upcountry mills, as a whole, are at least as well equipped as Bombay to take advantage of the bounty and that it will not improve the position of the Bombay mills relative to that of those in other centres.

My colleagues have, in my view, dealt too cursorily with the difficulties presented by the insufficiency of raw material in India itself suitable for spinning counts of over 30s. We have stated in our Report the extent to which cotton suitable for such counts is available in India and have pointed out that the Bombay industry, for whose benefit the subsidy is mainly proposed, is at no special advantage in respect of it. It is, on the other hand at some disadvantage as compared with Ahmedabad in respect of the Broach crop and at a distinct disadvantage as compared with the mills in Southern India in respect of the Cambodia crop. Any development in the direction of spinning higher counts in Bombay must, therefore, mean an increased use of American and African cotton. However desirable this may be in the interests of the Bombay mill industry, I consider it questionable whether it is desirable that it should be encouraged by the grant of a bounty which would be met, in part, by the cultivator of Indian cotton in the form of an increase in duty on such imported cloth as he may use.

I attach considerable importance to the objection that the proposed bounty would deprive the millowner, who has already embarked on the spinning of higher counts, of much of the advantage he has derived or may derive from so doing. There are already a few mills which are spinning higher counts on a much larger scale than is contemplated by the proposed scheme. The proportion in one successful upcountry mill of spindles employed on counts above 30s is as high as four-sevenths. While the managing agents of such mills will be in a position to obtain a bounty on fifteen per cent. of their production, they will, in regard to the remainder of it, find themselves in competition with the subsidised product of their own and other mills.

The effect of the subsidy would be very unequal. Certain centres such as Bombay, Ahmedabad, Madras and Madura would be in a position to take greater advantage of it than others such as Cawnpore and Delhi. It would also work unequally as between mills in the same centre. Managing agents who control large mills or groups of mills would be able to take greater advantage of it than those who control smaller mills as they would be in a better position to effect the changes which would be necessitated by the transition to higher counts and to work the full

percentage of spindles necessary to earn the bounty. My colleagues consider that inequality of advantage is inseparable from any scheme of protection, whether in the form of an import duty or of a bounty. Even if that is admitted, I am still of opinion that direct State aid which works to the advantage of a section of an industry only is undesirable.

The grant of the proposed bounty would accentuate the tendency on the part of Indian mills to spin higher counts of yarn than the quality of the cotton warrants, a tendency which was the subject of unfavourable comment in evidence we received. The result is inferior yarn and cloth and discontented labour. Mills at present spinning 30s weft yarn would be tempted to spin 32s or even 34s yarn without altering their mixing.

The bounty would lead to inefficient working. The smallest efficient unit in a mill is one preparation and fifteen per cent. of the spindles are not sufficient to deal with the output of this where the plant consists of 30,000 spindles or less. The result would, therefore, be that the smaller mills would run a proportion only of a preparation on the cotton required for the spinning of higher counts and the balance between the two processes would be upset.

If the bounty is granted on the basis of the output of fifteen per cent. of the spindles used for spinning counts of 32s and over, the result would be to encourage the spinning of counts of or very near 32s as it would be on these that the maximum amount of the bounty could be earned at the minimum cost of production. If the bounty is granted on the average number of spindles, there is no incentive to securing the maximum production per spindle.

As I have stated, the difficulties in the way of administering the subsidy appear to be insuperable. A grave objection to the subsidy, in my view, is the inquisitorial inspections which would be necessary to ensure that the production and counts of yarn were as stated. My colleagues have referred to the fact that a similar and even more elaborate scheme is in force in Queensland which is, so far as I am aware, the only country in which an attempt has been made to subsidise the cotton textile industry in the manner proposed. The cotton textile industry in Queensland is an entirely new industry and the number of mills is very small indeed, so small that the number of spindles in them is not shown separately in any return of the world's spindles which I have been able to procure. There is further an important difference between the scheme which is in force in Queensland and that proposed for India. The bounty in Queensland is given on a graduated scale from the lowest counts upwards. There is thus no inducement to a mill to return higher counts than those actually spun in order to earn the bounty.

My colleagues have proposed the imposition of an additional four per cent. duty on all imports of cotton manufactures, other than yarn, mainly in order to provide the funds required to stimulate the production of yarn of higher counts. As I do not agree that such a stimulus is necessary or desirable, it follows that I am unable to agree that an all-round increase in the present eleven per cent. duty can be justified. The objections

to a substantial all-round increase in that duty which have been stated at length in our Report appear to me to apply whatever the amount of the proposed addition. It is, therefore, unnecessary to discuss at any length the secondary argument advanced in favour of a general increase in the duty, namely, that it would afford relief against the maladjustment between costs of production and falling prices. My colleagues consider that the other reasons they advance for a small all-round increase in the duty are strengthened by the undoubted temporary handicap imposed on the industry by the stabilisation of the rupee at 1*s.* 6*d.* which has rendered the problem presented by the disparity between prices and wages more acute. I would merely point out that it has not been established that the problem presented by the disparity between prices and wages is pronounced except in Bombay. Our examination of the cost of production statements as well as much evidence adduced before us has shown that there is no respect in which the disadvantages of Bombay as compared with other centres are more apparent than in its high labour costs and it has not been shown that the present level of wages is an undue burden on the industry in any centre other than Bombay. Even if the estimate of the direct disadvantage to the industry, due to the stabilisation of the rupee at 1*s.* 6*d.*, as from 4 to 6 per cent., according to the price of cotton, is accepted, it must, I consider, be held that the greater part of this has been rectified by the abolition of the excise duty. It is unnecessary to labour this point. The connexion between the level of wages in Bombay and the abolition of the excise duty is sufficiently obvious from the fact that the attempt to reduce wages in Bombay at the end of 1925 was abandoned when the excise duty was abolished.

No all round increase in the duty affords any solution to the main problem before the Bombay industry, that of meeting the increasing competition of mills in other centres. The complexity of the problems with which we have been confronted has been very greatly enhanced by the disparity between the conditions in Bombay and other centres. We have pointed out, in Chapter III, that the demand for protection has not been so earnestly pressed from other centres as it has been from Bombay. It is, I think, unquestionable that there would have been no demand for protection at all had it not been for the depression in Bombay. If the demand for protection in any form is admitted, as we have admitted it in the case of unfair foreign competition, the problem is therefore to devise a measure of protection which will assist the Bombay industry, will impose the minimum burden on the consumer and will not, at the same time, give the industry in other centres assistance of which it does not really stand in need. The problem is an insoluble one, but the nearest approach to its solution is provided by protection against unfair foreign competition, the effect of which on prices is felt by the whole industry though the direct effect is much more severely felt in Bombay than it is elsewhere. We are agreed that an industry may legitimately ask for protection against unfair foreign competition beyond what is accorded to it by any existing revenue duty. The unfair competition in the present instance arises from inferior labour conditions and the measure

of protection should, therefore, be that which is required to offset the advantages derived from these. We have estimated the advantages derived by the Japanese industry from double-shift working at 4 per cent. on the actual cost of manufacture of yarn and cloth. We have further given figures which show that, if a reasonable return on capital is included in the cost of production, this advantage, owing to the fact that the economies secured by double shift working are obtained on twice the output, is increased to about 10 per cent. for yarn and 12 per cent. for cloth. I do not attach the same importance to these figures as do my colleagues. It appears to me impossible to assess quantitatively the advantages derived by the Japanese industry in this respect. Further, the addition of a reasonable return on capital to actual manufacturing costs introduces problems of the utmost complexity in regard to the correct basis which should be adopted for the capitalisation of an industry which has been so long established as the cotton textile industry. The basis of the calculations the results of which are given above is present replacement values, but it appears to me that there is insufficient justification for adopting this basis for the industry in Bombay where, owing to municipal restrictions, no new mills can be erected. Whatever view may be taken in regard to this, I hold that the maximum duty which can be justified is one which will offset the actual advantage per pound of yarn or per pound of cloth manufactured, derived from double shift working in Japan. This, it is most important to note, is all that was asked for in this respect by the Bombay mill industry.

I, therefore, recommend the imposition of a differential duty of 4 per cent. on all cotton manufactures imported into India from Japan, to be imposed at the earliest date from which such a duty can be imposed with reference to the terms of the Anglo-Japanese Convention of 1905. For the reasons given by my colleagues, I further recommend that this should be imposed until the end of the period for which they have recommended the additional general duty, that is until the end of the financial year 1929-30. I realise, as fully as they do, the objections to imposing an enhanced duty on yarn, even though it is a differential duty against one country only, but I can see no logical ground for distinction between yarn and cloth and would point out that the argument they have advanced in support of their proposal for an all round increase in the duty on cloth, namely that the recent heavy fall in the price of cotton should render its effect on the consumer imperceptible, applies equally to yarn. It may be held that a differential duty of four per cent. is so small that it will give the industry no material assistance in meeting unfair competition. It must be remembered that it is in addition to an existing duty of five per cent. on yarn and of eleven per cent. on cloth. The history of the Indian cotton textile industry, moreover, furnishes convincing proof that a duty of four per cent. has never been regarded as inappreciable.

My colleagues have pointed out that their proposal obviates the disadvantage which would arise from the fact that the imposition of a differential duty against Japanese imports would necessitate the abrogation of the Anglo-Japanese Convention of 1905 and that this

might lead to retaliation against exports from India to Japan. It has also been pointed out in the Report that the difficulties arising from the existence of the Anglo-Japanese Convention could be obviated, and the industry could at the same time be protected against unfair competition, without the imposition of a general duty, if an additional duty were imposed on cotton manufactures from all countries outside the British Empire, the imports of which from countries other than Japan are very small. My colleagues hold that this would, in effect, amount to Imperial Preference and thus raise broader questions of commercial policy than can be dealt with by such a Board as ours. I am in entire agreement with them on this point. Our concern is with the facts of the industry before us. On those facts it has been established that the industry is suffering from unfair competition but that the extent of that competition does not justify an increase in the present level of duty beyond four per cent. We are agreed in holding that a duty of this amount would give the industry an appreciable measure of protection. I am at one with my colleagues in holding that it is not for us to express an opinion whether the disadvantages to the cotton textile industry, arising from unfair foreign competition, outweigh the advantages which accrue from the existence of the Anglo-Japanese Convention, especially in view of the fact that, as six months' notice has to be given of intention to terminate it, more than six months of the period of two and a half years during which conditions of labour in Japan will, so far as can at present be foreseen, remain sufficiently inferior to those in India to justify a differential duty must necessarily elapse before such a duty can be imposed. Nor is it for us to express an opinion whether the object aimed at, which is the protection of the industry against unfair foreign competition, could better be secured by the imposition of an additional duty on cotton manufactures from countries outside the British Empire. It must, however, be pointed out that the latter course would have the advantage that only a very small additional proportion of the import would be affected. The imports of yarn from countries outside the British Empire and Japan in 1925-26 amounted to 2·1 million pounds, or 4 per cent. of the total, and those of piece-goods to 56 million yards, or 3·5 per cent. of the total. It would further enable immediate assistance to be given to the industry whereas, in any event, no differential duty could be imposed against Japan for a period of six months and possibly considerably longer. It would also avoid the complication which arises from the fact that there are other countries such as China and the United States of America in which conditions of labour in respect of the employment of female labour at night are inferior to those in India and which should, therefore, logically be included in any scheme of differential duties imposed on this ground. The competition of these countries is not severe but the figures we have given in paragraph 44 show that, when stable conditions are restored in China, competition from that country may easily become so. In this connexion, it cannot be overlooked that there are 45 mills in China which are owned by Japanese so that a differential duty against Japan might well lead to increased imports from China.

The proposals submitted by my colleagues have the advantage over that submitted above that they more than provide the funds required for the expenditure involved by recommendations, other than that for the grant of the bounty, which have my entire support. An additional duty of four per cent. on cotton manufactures from Japan would yield about Rs. 50 lakhs on the basis of the figures for 1925-26. An additional duty against Japan only would undoubtedly lead to a fall in this figure and, as the estimated cost of the remission of the duty on machinery and mill stores alone is Rs. 50 lakhs, there would thus be some loss of revenue under this head as well as expenditure in carrying out the other proposals enumerated in paragraph 107 of the Report which would have to be met from other sources.

F. NOYCE.

APPENDIX I

TABLE I

List of cotton mills visited in Bombay and other centres

No.	Name of the mill	Date of visit
	Bombay	
1	Tata Mill	3rd July 1926
2	Finlay Mill	5th ,, ,,
3	Spring Mill	6th ,, ,,
4	Jacob Sassoon Mill	7th ,, ,,
5	Khatau Makanji Mill	8th ,, ,,
6	Premier Mill	10th ,, ,,
7	Meyer Sassoon Mill	13th ,, ,,
8	Alexandra Mill	13th ,, ,,
	Sholapur	
9	Lakshmi Cotton Manufacturing Company	28th July 1926
10	Vishnu Cotton Mill	28th ,, ,,
11	Sholapur Spinning and Weaving Company	29th ,, ,,
12	Jam Shri Ranjitsinghji Spinning and Weaving Mill	30th ,, ,,
13	Narsinggirji Manufacturing Company	30th ,, ,,
	Nagpur	
14	Central India Spinning, Weaving and Manufacturing Company	5th August 1926
15	Model Mill	6th ,, ,,
	Ahmedabad	
16	Raipur Mill	12th August 1926
17	The Fine Knitting Company	12th ,, ,,
18	Asoka Mill	12th ,, ,,
19	New Swadeshi Mill	13th ,, ,,
20	Asarwa Mill	13th ,, ,,
21	Ahmedabad Advance Mill	13th ,, ,,
22	Ahmedabad Jubilee Mill	14th ,, ,,
23	Ahmedabad Manufacturing and Calico Printing Company	14th ,, ,,
24	Aryodaya Spinning Mill	15th ,, ,,
25	Aryodaya Ginning Mill	15th ,, ,,
26	Marsden Mill	16th ,, ,,
	Madras	
27	Carnatic Mill	20th September 1926
28	Madras United Spinning and Weaving Mill	24th ,, ,,
	*Calcutta**	
29	Kesoram Mill	30th September 1926
	Cawnpore	
30	Juggilal Kamlapat Mill	4th October 1926
31	Elgin Mill	5th ,, ,,
32	New Victoria Mill	5th ,, ,,
33	Cawnpore Cotton Mill	6th ,, ,,
34	Cawnpore Textile Mill	7th ,, ,,
	Delhi	
35	Delhi Cloth and General Mill	9th October 1926
36	Birla Cotton Spinning and Weaving Mill	9th ,, ,,

* The Board also visited the Gaurepore Jute Mill and the Nadia Jute Mill on the 2nd October 1926.

No.	Name of the mill	Date of visit
	Amritsar	
37	Bankteshwar Mill	.. 12th October 1926
38	Guru Ram Dass Mill	.. 12th ,, ,,

TABLE II

List of cloth markets visited

No.	Market	Date of visit
1	Mulji Jetha Cloth Market, Bombay ..	.. 14th July 1926
2	Maskati Cloth Market, Ahmedabad ..	.. 17th September 1926
3	Madras	.. 23rd ,, ,,
4	Calcutta	.. 1st October 1926
5	Cawnpore	.. 4th ,, ,,
6	New Delhi Cloth Market	.. 8th ,, ,,
7	Amritsar	.. 11th ,, ,,

TABLE III

List of institutes, etc., visited

No.	Name	Date of visit
1	Textile Institute, Madras	.. 23rd September 1926
2	,, ,, Cawnpore	.. 7th October ,,
3	Bombay Development Directorate's Chawls, Worli, Bombay	.. 14th November ,,
4	Indian Central Cotton Committee's Technological Laboratory, Bombay	.. 21st December ,,
5	Victoria Jubilee Technical Institute, Bombay	.. 21st ,, ,,

APPENDIX II

Statements showing the progress of the cotton mill industry in India

APPENDIX

TABLE

Statement showing the progress of

Year ending 30th June	Number of mills working	Number of spindles	Number of looms	Number of mills not working	Number of spindles	Number of looms
1	2	3	4	5	6	7
1883-84 ..	37	1,110,866	11,985	1	15,264	*Nil*
1884-85 ..	46	1,322,390	12,011	*Nil*	*Nil*	*Nil*
1885-86 ..	44	1,173,373	9,848	3	159,672	2,220
1886-87 ..	49	1,325,136	11,453	*Nil*	*Nil*	*Nil*
1887-88 ..	50	1,441,123	12,752	2	15,892	*Nil*
1888-89 ..	50	1,555,696	12,671	3	49,084	709
1889-90 ..	59	1,736,866	13,385	*Nil*	*Nil*	*Nil*
1890-91 ..	64	1,881,855	14,347	1	6,868	*Nil*
1891-92 ..	65	1,934,716	14,900	*Nil*	*Nil*	*Nil*
1892-93 ..	64	1,957,150	16,664	3	84,058	*Nil*
1893-94 ..	66	2,020,654	18,625	1	6,720	*Nil*
1894-95 ..	68	2,123,892	20,217	*Nil*	....	..
1895-96 ..	68	2,148,979	20,829	*Nil*	*Nil*	*Nil*
1896-97 ..	68	2,070,537	21,287	*Nil*	*Nil*	*Nil*
1897-98 ..	71	2,219,598	21,379	*Nil*	*Nil*	*Nil*
1898-99 ..	74	2,338,697	22,209	*Nil*	*Nil*	*Nil*
1899-1900 ..	73	2,300,247	18,153	5	209,824	4,062
1900-01 ..	75	2,413,084	21,274	6	158,008	1,140
1901-02 ..	75	2,421,081	21,705	2	45,336	1,140
1902-03 ..	77	2,345,378	23,125	1	*Nil*	*Nil*
1903-04 ..	76	2,471,750	24,136	3	62,480	*Nil*
1904-05 ..	79	2,536,916	27,716	1	24,000	357
1905-06 ..	82	2,614,323	28,778	*Nil*	*Nil*	*Nil*
1906-07 ..	79	2,613,483	31,132	3	*Nil*	850
1907-08 ..	79	2,653,875	34,565	5	48,528	772
1908-09 ..	79	2,742,253	37,680	5	19,180	437
1909-10 ..	77	2,727,940	41,494	9	96,106	437
1910-11 ..	75	2,662,632	42,467	10	227,958	*Nil*
1911-12 ..	79	2,805,172	43,088	5	80,280	300
1912-13 ..	77	2,806,566	44,804	7	119,400	446
1913-14* ..	81	2,938,540	48,129	3	70,632	719
1914-15* ..	78	2,848,143	51,441	6	146,224	405
1915-16* ..	76	2,745,919	52,669	8	238,656	536
1916-17* ..	84	2,880,119	57,921	3	53,656	*Nil*

* Ending 31st

II

I

the cotton mill industry in Bombay

Number of mills in course of erection	Number of spindles	Number of looms	Total number of mills	Spindles	Looms	Average number of hands employed daily	Approximate quantity of cotton consumed in bales of 392 lbs.	Year ending 30th June
8	9	10	11	12	13	14	15	16
6	100,616	*Nil*	44	1,226,746	11,985	36,071	348,140	1883-84
3	25,000	*Nil*	49	1,347,390	12,011	41,545	392,498	1884-85
3	55,728	*Nil*	50	1,388,773	12,068	44,111	391,154	1885-86
6	121,508	710	55	1,446,644	12,163	43,270	453,614	1886-87
9	80,824	*Nil*	61	1,537,839	12,752	47,789	500,004	1887-88
16	206,524	*Nil*	69	1,811,304	13,380	52,490	563,730	1888-89
11	287,750	924	70	2,024,616	14,309	59,139	636,234	1889-90
2	100,400	800	67	1,989,123	15,147	61,981	762,562	1890-91
3	131,320	1,720	68	2,066,036	16,620	65,087	728,588	1891-92
2	22,400	*Nil*	69	2,063,608	16,664	67,870	724,260	1892-93
2	49,000	*Nil*	69	2,076,374	18,625	70,553	720,656	1893-94
1	31,568	*Nil*	69	2,155,460	20,217	75,740	815,394	1894-95
7	61,640	506	75	2,110,619	21,335	78,455	849,678	1895-96
12	110,220	*Nil*	80	2,180,757	21,287	69,530	702,756	1896-97
12	128,224	884	83	2,347,822	22,263	70,728	817,328	1897-98
10	164,302	*Nil*	84	2,502,999	22,209	77,169	950,800	1898-99
4	95,172	*Nil*	82	2,605,243	22,215	72,914	744,800	1899-1900
1	*Nil*	*Nil*	81	2,571,092	22,414	82,162	695,758	1900-01
3	57,352	*Nil*	80	2,523,769	22,845	86,122	987,378	1901-02
2	23,000	*Nil*	80	2,369,273	23,125	86,913	986,228	1902-03
Nil	*Nil*	*Nil*	79	2,534,230	24,136	89,915	972,734	1903-04
1	28,848	*Nil*	81	2,589,764	28,073	92,924	1,072,452	1904-05
2	*Nil*	*Nil*	84	2,614,323	28,778	100,798	1,141,264	1905-06
3	32,280	630	85	2,645,763	32,612	98,101	1,115,750	1906-07
2	32,280	630	86	2,734,683	35,967	101,536	1,079,194	1907-08
5	38,912	1,147	89	2,800,345	39,264	105,751	1,098,704	1908-09
3	*Nil*	*Nil*	89	2,824,046	41,931	104,550	984,058	1909-10
2	*Nil*	*Nil*	87	2,890,590	42,467	104,500	953,450	1910-11
2	*Nil*	*Nil*	86	2,885,452	43,388	109,691	1,077,616	1911-12
6	29,460	800	90	2,955,426	46,050	110,033	1,072,210	1912-13
1	50,000	1,800	85	3,059,172	50,648	109,860	1,078,038	1913-14*
2	50,000	1,800	86	3,044,367	53,646	111,924	1,026,050	1914-15*
2	50,000	1,800	86	3,034,575	55,005	118,303	1,096,174	1915-16*
1	*Nil*	*Nil*	88	2,933,775	57,921	125,713	1,184,814	1916-17*

August.

APPENDIX

Year ending 30th June	Number of mills working	Number of spindles	Number of looms	Number of mills not working	Number of spindles	Number of looms
	1	2	3	4	5	6
1917-18* ..	86	2,882,648	59,162	*Nil*	*Nil*	*Nil*
1918-19* ..	84	2,911,476	60,178	1	23,000	600
1919-20* ..	82	2,958,814	60,164	*Nil*	*Nil*	*Nil*
1920-21* ..	83	3,025,488	62,763	*Nil*	*Nil*	*Nil*
1921-22* ..	81	3,081,300	64,481	1	35,984	1,040
1922-23* ..	79	3,278,350	67,737	2	70,732	1,209
1923-24* ..	79	3,330,065	70,204	3	97,556	929
1924-25* ..	79	3,378,365	70,753	3	77,868	1,513

* Ending 31st

II—contd.

Number of mills in course of erection	Number of spindles	Number of looms	Total number of mills	Spindles	Looms	Average number of hands employed daily	Approximate quantity of cotton consumed in bales of 392 lbs.	Year ending 30th June
7	8	9	10	11	12	13	14	15
1	*Nil*	*Nil*	87	2,882,648	59,162	124,199	1,068,492	1917-18*
1	*Nil*	*Nil*	86	2,934,476	60,778	126,368	999,756	1918-19*
1	5,712	470	83	2,964,526	60,634	140,208	957,150	1919-20*
Nil	*Nil*	*Nil*	83	3,025,488	62,763	147,740	1,060,508	1920-21*
Nil	*Nil*	*Nil*	82	3,117,284	65,521	149,224	1,074,198	1921-22*
Nil	*Nil*	*Nil*	81	3,349,082	67,373	148,771	1,059,630	1922-23*
Nil	*Nil*	*Nil*	82	3,427,621	71,133	148,414	821,466	1923-24*
Nil	*Nil*	*Nil*	82	3,456,233	72,266	153,009	894,732	1924-25*

August.

TABLE

Statement showing the progress of the

Year ending 30th June	Number of mills working	Number of spindles	Number of looms	Number of mills not working	Number of spindles	Number of looms
1	2	3	4	5	6	7
1883-84 ..	68	1,838,911	16,162	1	15,264	*Nil.*
1884-85 ..	83	2,099,346	16,437	*Nil.*	*Nil.*	*Nil.*
1885-86 ..	86	2,227,464	15,060	5	171,736	2,395
1886-87 ..	94	2,272,982	17,576	*Nil.*	*Nil.*	*Nil.*
1887-88 ..	95	2,462,497	19,145	3	26,354	*Nil.*
1888-89 ..	99	2,654,592	20,652	4	62,824	909
1889-90 ..	111	2,971,510	23,408	*Nil.*	*Nil.*	*Nil.*
1890-91 ..	121	3,187,302	23,927	1	6,868	*Nil.*
1891-92 ..	125	3,320,984	24,719	3	46,148	300
1892-93 ..	125	3,322,071	27,427	6	146,598	260
1893-94 ..	133	3,592,238	30,618	2	18,762	211
1894-95 ..	137	3,722,116	34,661	1	12,042	211
1895-96 ..	144	3,895,602	36,764	*Nil.*	*Nil.*	*Nil.*
1896-97 ..	149	4,003,457	37,165	2	23,986	419
1897-98 ..	153	4,011,383	36,323	4	53,673	517
1898-99 ..	167	4,549,791	38,155	4	55,300	464
1899-1900 ..	170	4,591,568	35,259	13	327,395	4,868
1900-01 ..	176	4,747,380	39,359	11	259,586	1,821
1901-02 ..	178	4,841,313	40,511	6	98,660	1,829
1902-03 ..	181	4,946,811	43,839	4	50,240	75
1903-04 ..	183	5,003,737	45,037	7	114,384	300
1904-05 ..	191	5,122,474	49,508	3	41,012	633
1905-06 ..	194	5,226,957	52,068	3	20,446	88
1906-07 ..	199	5,270,175	57,546	5	33,944	1,516
1907-08	218	5,662,332	66,230	7	50,192	860
1908-09 ..	224	5,936,395	74,495	9	35,844	748
1909-10 ..	222	5,988,317	81,295	21	207,354	1,430
1910-11 ..	217	5,943,634	82,965	26	413,826	2,387
1911-12 ..	233	6,094,642	85,801	19	369,287	3,150
1912-13 ..	236	6,320,028	92,487	23	276,834	1,649
1913-14* ..	240	6,484,691	101,022	21	294,204	3,157
1914-15* ..	240	6,446,266	106,067	23	402,478	1,942
1915-16* ..	237	6,347,422	107,603	25	492,455	2,665
1916-17* ..	238	6,466,381	112,144	22	272,316	2,477
1917-18* ..	249	6,562,637	115,818	9	91,234	636

* Ending 31st

II

cotton mill industry in India

Number of mills in course of erection	Number of spindles	Number of looms	Total number of mills	Number of spindles	Number of looms	Average number of hands employed daily	Approximate quantity of cotton consumed in bales of 392 lbs.	Year ending 30th June
8	9	10	11	12	13	14	15	16
13	147,492	100	82	2,001,667	16,262	60,287	531,365	1883-84
7	46,300	100	90	2,145,646	16,537	67,186	596,749	1884-85
4	55,728	*Nil.*	95	2,454,928	17,455	74,383	643,204	1885-86
9	148,308	960	103	2,421,290	18,536	76,942	726,276	1886-87
16	150,920	351	114	2,639,771	19,496	82,379	786,982	1887-88
20	251,626	*Nil.*	123	2,969,042	21,561	91,598	888,654	1888-89
25	431,642	1,528	136	3,403,152	24,936	102,721	1,008,462	1889-90
12	237,524	1,404	134	3,431,694	25,331	111,018	1,178,906	1890-91
11	166,420	2,145	139	3,533,552	27,164	116,161	1,165,938	1891-92
10	129,648	477	141	3,598,317	28,164	121,500	1,171,008	1892-93
7	87,736	325	142	3,698,736	31,154	130,461	1,222,508	1893-94
10	107,330	466	148	3,841,497	35,338	138,669	1,341,714	1894-95
26	147,204	731	170	4,042,806	37,495	145,432	1,409,318	1895-96
39	242,816	*Nil.*	190	4,270,259	37,584	144,335	1,300,936	1896-97
32	315,504	1,173	189	4,380,560	38,013	148,964	1,481,328	1897-98
25	328,052	1,414	205	4,933,143	40,033	162,108	1,675,190	1898-99
10	22,709	442	193	4,941,672	40,569	161,189	1,453,352	1899-1900
6	30,200	100	193	5,037,166	41,280	172,883	1,351,740	1900-01
8	92,492	300	192	5,032,465	42,640	181,031	1,765,038	1901-02
7	46,244	178	192	5,043,295	44,092	181,399	1,739,340	1902-03
1	18,000	*Nil.*	191	5,136,121	45,337	184,779	1,744,766	1903-04
3	50,096	*Nil.*	197	5,213,582	50,139	195,277	1,879,244	1904-05
20	208,961	2,212	217	5,456,364	54,368	208,616	2,023,516	1905-06
20	266,316	3,760	224	5,570,435	62,822	205,696	1,980,170	1906-07
16	182,400	2,798	241	5,894,924	69,888	221,195	1,991,500	1907-08
26	197,868	3,165	259	6,170,107	78,408	236,924	2,109,000	1908-09
20	167,352	2,300	263	6,363,023	85,025	233,624	1,935,010	1909-10
18	36,216	1,800	261	6,393,676	87,152	230,649	1,905,866	1910-11
16	35,896	1,839	268	6,499,825	90,790	243,637	2,050,102	1911-12
13	29,460	800	272	6,626,322	94,936	253,786	20,96,016	1912-13
10	104,500	2,400	271	6,883,395	106,579	260,276	2,143,126	1913-14*
9	73,000	2,400	272	6,921,744	110,409	265,346	2,102,632	1914-15*
4	50,000	1,800	266	6,889,877	112,068	274,361	2,197,718	1915-16*
3	*Nil.*	*Nil.*	263	6,788,697	114,618	276,771	2,198,164	1916-17*
4	*Nil.*	*Nil.*	262	6,653,871	116,454	282,227	2,085,678	1917-18*

TABLE

Year ending 30th June	Number of mills working	Number of spindles	Number of looms	Number of mills not working	Number of spindles	Number of looms
1	2	3	4	5	6	7
1918-19* ..	250	6,642,048	117,385	6	47,632	836
1919-20* ..	242	6,715,128	118,297	8	47,948	715
1920-21* ..	245	6,845,824	123,544	5	24,980	239
1921-22* ..	249	7,277,571	133,544	5	53,648	1,076
1922-23* ..	280	7,560,405	140,455	12	171,681	2,373
1923-24* ..	274	7,851,104	146,453	15	270,751	2,941
1924-25* ..	275	8,093,801	148,612	19	264,520	4,337

* Ending 31st

II—*contd.*

Number of mills in course of erection	Number of spindles	Number of looms	Total number of mills	Number of spindles	Number of looms	Average number of hands employed daily	Approximate quantity of cotton consumed in bales of 392 lbs.	Year ending 30th June
8	9	10	11	12	13	14	15	16
2	*Nil.*	*Nil.*	258	6,689,680	118,221	293,277	2,044,230	1918-19*
3	5,712	470	253	6,768,788	119,482	311,078	1,952,318	1919-20*
7	26,000	*Nil.*	257	6,895,804	123,783	332,179	2,120,230	1920-21*
44	245,000	2,800	298	7,576,219	137,420	343,723	2,203,540	1921-22*
41	195,852	1,966	333	7,927,938	142,462	347,390	2,151,698	1922-23*
47	191,418	2,091	336	8,313,273	151,485	356,887	1,917,748	1923-24*
43	152,312	1,071	337	8,510,633	154,020	367,877	2,226,310	1924-25*

August.

APPENDIX

Statement showing the production, imports and

Years	Imports of yarn	Re-exports of yarn	Net imports of yarn (2—3)	Indian production
1	2	3	4	5
	lbs. (million)	lbs. (million)	lbs. (million)	lbs. (million)
1899-1900	42·6	5·5	37·1	514
1900-01	34·8	4·7	30·1	353
1901-02	38·3	6·7	31·6	573
1902-03	33·7	5·8	27·9	576
1903-04	28·0	4·9	23·1	579
1904-05	30·6	5·2	25·4	578
1905-06	45·8	5·0	40·8	681
1906-07	37·7	5·5	32·2	654
1907-08	37·3	6·6	30·7	638
1908-09	41·5	6·5	35·0	658
1909-10	40·3	5·6	34·7	628
1910-11	32·5	5·4	27·1	610
1911-12	42·0	7·3	34·7	625
1912-13	50·0	9·3	40·7	688
1913-14	44·2	8·3	35·9	683
1914-15	42·9	8·9	34·0	652
1915-16	40·4	8·7	31·7	722
1916-17	29·5	6·7	22·8	681
1917-18	19·4	6·1	13·3	661
1918-19	38·1	6·1	32·0	615
1919-20	15·1	7·2	7·9	636
1920-21	47·3	3·6	43·7	660
1921-22	57·1	3·6	53·5	694
1922-23	59·3	6·3	53·0	706
1923-24	44·6	5·1	39·5	617
1924-25	55·9	5·4	50·5	719
1925-26	51·6	1·0*	50·6	686

* Figures for exports and re-exports by sea

III

exports of yarn during the period 1899-1900 to 1925-26

Exports of Indian yarn	Net consumption of Indian mill production (5—6)	Total Indian consumption (4+7)	Yarn consumed in mills for production of woven goods assuming 100 lbs. of yarn = 112 lbs. of cloth	Balance of yarn available for consumption in handloom industry (8—9)	Population	Consumption of yarn per capita
6	7	8	9	10	11	12
lbs. (million)	lbs. (million)	lbs. (million)	lbs. (million)	lbs. (million)	lbs. (million)	lbs. (million)
244	270	307	87	220	292	1·06
122	231	261	88	173	294	·88
278	295	327	107	220	295	1·10
255	321	349	110	239	297	1·17
260	319	342	123	219	299	1·14
256	322	347	142	205	301	1·15
305	376	417	146	271	302	1·38
251	403	435	148	287	305	1·42
223	415	446	169	277	307	1·45
242	416	451	171	280	309	1·42
234	394	429	204	225	311	1·37
191	419	446	220	226	313	1·42
161	464	499	238	261	315	1·58
215	473	514	254	260	315	1·63
207	476	512	245	267	316	1·62
143	509	543	247	296	316	1·71
168	554	586	314	272	317	1·84
178	503	526	337	189	317	1·65
130	531	544	340	204	317	1·71
73	542	574	312	262	318	1·81
161	475	483	343	140	318	1·51
89	571	615	328	287	319	1·92
88	606	660	361	299	319	2·06
64	642	695	362	333	319	2·17
46	571	611	359	252	320	1·90
46	678	724	410	314	320	2·26
32*	654	705	415	290	320	2·20

only are available for the year 1925-26.

APPENDIX

Statement showing the production, imports and exports of cotton piecegoods, both

Years	Imports of foreign piecegoods	Re-exports of foreign piecegoods	Net imports (2—3)	Production — Mills*
1	2	3	4	5
	yards (million)	yards (million)	yards (million)	yards (million)
1899-1900	2,191	138	2,053	419
1900-01	2,003	128	1,875	422
1901-02	2,190	148	2,042	511
1902-03	2,107	121	1,986	524
1903-04	2,033	130	1,903	589
1904-05	2,288	136	2,152	678
1905-06	2,463	128	2,335	700
1906-07	2,318	125	2,193	708
1907-08	2,531	130	2,401	808
1908-09	1,992	122	1,870	824
1909-10	2,193	123	2,070	964
1910-11	2,308	146	2,162	1,043
1911-12	2,438	176	2,262	1,136
1912-13	3,022	175	2,847	1,220
1913-14	3,197	155	3,042	1,164
1914-15	2,445	118	2,327	1,136
1915-16	2,148	129	2,019	1,442
1916-17	1,933	162	1,771	1,578
1917-18	1,555	150	1,405	1,614
1918-19	1,122	167	955	1,451
1919-20	1,081	145	836	1,640
1920-21	1,510	105	1,405	1,581
1921-22	1,090	110	980	1,732
1922-23	1,593	126	1,467	1,725
1923-24	1,486	112	1,374	1,702
1924-25	1,823	113	1,710	1,970
1925-26	1,564	35‡	1,529	1,954

* Figures of yardage of coloured piecegoods

† Derived from column 10 of Appendix III on the

‡ Figures for exports and re-exports by sea only

IV

foreign and Indian, to and from India during the period 1899-1900 to 1925-26

of piecegoods in India		Exports of Indian piecegoods	Balance of Indian piecegoods available for consumption (5—6)	Balance of foreign and Indian piecegoods available for consumption (4+9)	Population	Consumption per capita
Handloom†	Total					
6	7	8	9	10	11	12
yards (million)	yards (million)	yards (million)	yards (million)	yards (million)	(million)	yards
880	1,303	112	1,191	3,244	292	11·10
692	1,114	111	1,003	2,878	294	9·80
880	1,391	120	1,271	3,313	295	11·23
960	1,484	109	1,375	3,361	297	11·31
872	1,461	125	1,336	3,239	299	10·83
828	1,506	135	1,371	3,523	301	11·70
1,084	1,784	129	1,655	3,990	302	13·21
1,148	1,856	115	1,741	3,934	305	12·89
1,108	1,916	112	1,804	4,205	307	13·69
1,116	1,940	113	1,827	3,697	309	11·96
896	1,860	126	1,734	3,804	311	12·23
908	1,951	134	1,817	3,979	313	12·71
1,044	2,180	118	2,062	4,324	315	13·72
1,040	2,260	125	2,135	4,982	315	15·81
1,068	2,232	130	2,102	5,146	316	16·28
1,184	2,320	110	2,210	4,537	316	14·35
1,048	2,490	161	2,329	4,348	317	13·37
816	2,394	309	2,085	3,856	317	12·16
812	2,426	234	2,192	3,597	317	11·34
1,048	2,499	187	2,312	3,267	318	10·27
564	2,204	239	1,965	2,801	318	8·80
1,148	2,729	170	2,559	3,964	319	12·42
1,190	2,922	187	2,735	3,715	319	11·64
1,341	3,066	186	2,880	4,347	319	13·62
1,005	2,707	201	2,506	3,880	320	12·12
1,256	3,226	230	3,096	4,806	320	15·01
1,160	3,114	164‡	2,950	4,479	320	13·99

were not available prior to 1906-07.

assumption that 4 yards of cloth are produced per lb. of yarn,

are available for the year 1925-26 .

APPENDIX V

Financial position of the Bombay Cotton Mill Industry

Year	Capital paid up	Reserves including carry forward	Original cost of land, buildings and machinery	Land, buildings and machinery after depreciation	Annual depreciation written of	Net profit or loss	Dividend	Percentage of dividends to paid-up capital	Reserves	Provident fund	Carry forward	Number of mills
1	2	3	4	5	6	7	8	9	10	11	12	13
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	
1917	7,65,67,395	2,36,35,705	17,98,21,456	12,12,46,916	85,65,934	3,02,06,860	1,69,62,045	22·2	80,96,080	1,07,893	50,40,892	63
1918	8,10,45,715	3,49,59,777	19,52,73,733	12,76,21,853	87,87,908	*2,28,07,546*	1,91,95,613	23·7	38,23,022	48,692	*2,59,781*	64
1919	9,40,10,530	3,78,77,058	20,94,82,990	12,89,11,504	1,44,39,246	6,15,66,648	3,77,20,074	40·1	1,90,36,873	2,06,414	46,03,287	67
1920	16,98,67,485	6,53,25,223	33,50,48,254	23,70,93,186	1,63,75,066	10,10,63,174	5,98,15,856	35·2	3,18,18,035	3,02,519	91,26,764	80
1921	17,83,11,137	9,80,94,780	38,08,54,759	26,23,30,072	1,81,78,737	8,46,44,605	5,34,78,623	30·0	3,32,60,455	3,37,813	*24,32,286*	80
1922	17,96,28,996	12,44,45,090	42,94,89,978	29,54,90,301	1,38,41,139	3,87,51,591	2,94,44,334	16·4	1,38,03,308	63,402	*45,50,453*	80
1923	19,18,62,213	13,98,14,803*	46,54,95,302	30,71,58,766*	1,81,82,222*	*1,28,13,117**	93,69,467	4·9	*9,72,092*	....	*12,10,492**	81
1924	19,28,15,936	12,13,10,342*	46,76,48,463	30,15,80,391*	1,83,54,013*	*2,42,77,106**	60,84,686	3·2	*63,67,302*	....	*2,39,94,490**	79
1925	19,20,96,278	10,45,82,674*	46,72,00,686	29,63,59,044*	1,85,86,851*	*2,87,64,573**	43,11,006	2·2	*63,41,589*	....	*2,67,33,990**	79

Note.—*Italics* indicate—
Column 7 Net loss.
„ 10 Withdrawals from reserves.
„ 12 Balance loss carried forward.

The figures for 1923, 1924 and 1925 marked * are arrived at after making full allowances for depreciation on buildings and machinery.

APPENDIX VI

Financial position of the Bombay Cotton Mill Industry

Year	Capital paid up	Reserves including carry forward	Original cost of land, buildings and machinery	Land, buildings and machinery after depreciation	Depreciation on buildings at 2½ per cent. and machinery at 5 per cent. on original cost	Net profit or loss	Dividend	Percentage of dividends to original cost of land, buildings and machinery	Reserves	Provident fund	Carry forward	Number of mills
1	2	3	4	5	6	7	8	9	10	11	12	13
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	
1917 ..	7,65,67,395	2,36,35,705	17,98,21,456	12,24,41,002	73,71,848	3,14,00,946	1,69,62,045	9·4	80,96,030	1,07,893	62,34,978	63
1918 ..	8,10,45,715	3,49,59,777	19,52,73,733	12,83,93,989	80,15,772	2,35,79,682	1,91,95,613	9·8	38,23,022	48,692	5,12,355	64
1919 ..	9,40,10,530	3,78,77,058	20,94,82,990	13,47,88,497	85,62,253	6,74,43,641	3,77,20,074	18	1,90,36,873	2,06,414	1,04,80,280	67
1920 ..	16,98,67,485	6,53,24,223	33,50,48,254	24,07,10,334	1,27,57,918	10,46,80,322	5,98,15,856	17·8	3,18,18,035	3,02,519	1,27,43,912	80
1921 ..	17,83,11,137	9,80,94,780	38,08,54,759	26,58,35,232	1,46,73,577	8,81,49,765	5,34,78,623	14	3,32,60,455	3,37,813	10,72,874	80
1922 ..	17,96,28,996	12,44,45,090	42,94,89,978	29,25,37,600	1,67,93,840	3,57,98,890	2,94,44,334	6·8	1,38,03,308	63,402	*75,12,154*	80
1923 ..	19,18,62,213	13,98,14,803	46,54,95,302	30,71,58,766	1,81,82,222	*1,28,13,117*	93,69,467	2	*9,72,092*	....	*2,12,10,492*	81
1924 ..	19,28,15,936	12,13,10,342	46,76,48,463	30,15,88,391	1,83,54,013	*2,42,77,106*	60,84,686	1·3	*63,67,302*	....	*2,39,94,490*	79
1925 ..	19,20,96,278	10,45,82,674	46,72,00,686	29,63,59,044	1,85,86,851	*2,87,64,573*	43,11,006	·9	*63,41,589*	....	*2,67,33,990*	79

Note.—*Italics* indicate—
Column 7 Net loss
„ 10 Withdrawals from reserves
„ 12 Balance loss carried forward.

APPENDIX VII

The plight of new England's textile industries

(Reprint from " The Economist " dated 23rd and 30th October 1926)

I

PEOPLE who cherish the idea that the United States presents an unbroken sea of prosperity from Cape Cod to San Diego might revise their opinions after a study of the conditions in the area known as New England, which comprises the States of Maine, Vermont, New Hampshire, Massachusetts, Rhode Island, and Connecticut. After the primary stage of pioneer settlement had passed, New England attained wealth and prosperity through her ships, her fishing industry and her lumber trade, and when these declined she became the chief seat of manufacturing industry in the Republic. For many years the bases of her economic life have been the boot and shoe and cotton and woollen industries, and for one hundred years in each of these she was the dominant factor. The boot and shoe industry of New England, although nowadays it only produces one-half of the footwear made in the United States, is still in a reasonably prosperous condition, but her two great textile industries are faring less fortunately.

She still produces one-half of the output of woollen goods of America, and possesses one-third of the country's cotton mills, but neither industry is in a satisfactory condition, although both are protected by high tariffs against foreign competition. Undoubtedly the cotton industry is in the worse plight. Every week there is recorded the failure of one or two mills, or the bankruptcies of several houses engaged in some correlative line of enterprise either as carders, converters, jobbers, or wholesalers. Others that have escaped bankruptcy show very serious decreases in their profits; for instance, one of the largest mill groups declared in its recent financial report that it had incurred a loss of $520,819 in 1925, and an additional loss of $202,709 in the first half of 1926. As a result, the banks have been very chary about lending support to cotton firms, and the weaker mills are in constant financial difficulties. Investors, following the lead of the banks, are fighting shy of purchasing textile stocks whose prices have been falling sharply; stocks of one mill which had a market value of $165 a few years ago are now appraised only at $2 each. Very few of the mills are paying dividends out of their earnings, and corporations which a few years back at the height of the war-time boom were distributing stock dividends of 100 per cent. are now paying 1 per cent., or scraping up low dividends from their accumulated surpluses.

Fall River and New Bedford have between them 7,440,000 spindles, almost one-fifth of all the spindles in the United States, and the Boston *Herald* recently carried the following item:—

" A survey of the cotton mills in New Bedford indicates that the plants were operating approximately 70 to 75 per cent. of their normal capacity in the weaving departments, with the spinning departments falling 20 to 25 per cent. below this level; mill authorities in Fall River placed production at slightly more than 50 per cent. of the normal ".

Cotton, a trade publication, reports that in Fall River, in 1925, only ·68 per cent. was paid by 14 out of 37 corporations, the lowest average since 1912, and last June the Boston *Globe* reported that for the New Bedford mills the " average yield per share for the quarter on a capitalisation of $70,028,100 is approximatlely $1·18, or less than $5 for the year. Returns for the half-year are the smallest in more than ten years. "

A census of Fall River taken last June revealed a loss of 2,000 in population, and an increase in empty tenements of over 900. In Lawrence, another cotton textile centre, a local paper on July 3rd printed an assessor's survey, which showed that of the 36,000 people normally employed in local textile industries there were at that time 9,000 totally unemployed and 4,000 more on part time. But yet the fact remains that, despite this serious depression in New England's cotton industry, there has been no real decrease of spinning activity in the United States for the simple reason that there has been an enormous expansion of the cotton industry in the Southern States.

The *American Wool and Cotton Reporter* of April 15th last tells something of the story in the following passage: —" In 1897 there were less than 4,000,000 cotton spindles in the South, with an investment of approximately $ 100,000,000, and giving employment to 50,000 people. To-day there are more than 1,200 mills in that section, with 17,180,302 spindles, representing an investment of more than $1,000,000,000, and giving employment to over 300,000 operatives.....Within the past quarter of a century the Southern industry has increased 318 per cent. as compared to only 40 per cent. in the older New England industry. And this growth has been continuous, for approximately 530,000 spindles were installed in Southern mills in 1925 as compared to 400,000 in 1924. "

In competition with New England the South has many advantages. The average tax levied in Alabama is only $1·55 per $100, against $2·54 for Massachusetts, $2·51 for New Hampshire, and $2·13 for Rhode Island. and Alabama points the moral with an advertisement headed, " Move that mill down South to Alabama, then pay your dividends from taxes saved. "

In addition, the South offers a much lower scale of wages and labour laws, which place no obstacles to continuous operation of factories night and day. Massachusetts, on the other hand, has a law which restricts women and minors to a 48-hour week, and absolutely forbids the employment of a woman after 6 p.m., whether or not she has worked at all during the day.

It happens, however that New England has to a certain extent been the architect of her own decline, for she has been exporting capital in large quantities to build up the mills of the South. To-day most of the great New England textile corporations have Southern branches, and the Alabama Power Company recently carried the following full-page advertisement in a textile paper. It was headed, " What a relief, " and said :—

" Now that the ———————— Manufacturing Company has started operations in Alabama, what a relief they must find it to be able to experiment freely with economic methods of production. What a relief to be confident of workmen amenable to any proposed changes, and eager to co-operate in any measures, whether this means operating 20 looms or 40 to the operative. "

Labour in the Southern mills is mainly drawn from the black or poor white population, and it is largely unorganised. On the other hand, in most of the New England textile towns the trades union spirit is strong, and time and again the workers have struck when millowners attempted to meet the lower Southern prices by making each operative tend more machines. When one such strike took place recently, the mill-owners promptly announced that they intended to rush work on a new factory in Alabama which they were constructing and fill their orders there.

But other factors beside Southern competition are responsible for the slump in the New England cotton industry. During the war and post-war boom the cotton manufacturers allowed their industry to undergo an extravagant expansion, and they failed to equip their organisations to meet changed demands and styles after the war. The over-expansion was the result of a mad race for production supremacy among cotton manufacturers which began about 1912, and only the artificial prosperity created by the war prevented the present depression from making itself felt sooner. The high wages which prevailed in every American industry, even remotely connected with the war from 1914 onwards generated a huge purchasing power, and many manufacturers were misled into the belief that the tremendous market which was thereby created would be permanent. This abnormal market took up the surplus of over-production, and encouraged further expansion, but when the post-war adjustments had to be made, wages returned to a more normal level, and the abnormal purchasing power disappeared, with the result that the market, for which provision had been made in the way of production, could not absorb the quantity of goods offered it.

At the same time, there was a radical change in the class of goods demanded. Women, for instance, instead of fulfilling hopes that they would return to the use of longer skirts, and increase the consumption of cotton, practically abandoned cotton for clothing purposes, and turned to silk or artificial silk because it was more luxurious and not much more expensive. Manufacturers did not sufficiently appreciate the effect of these changes in fashion, and mills found themselves carrying heavy stocks. Wholesalers and jobbers were also confronted with a retail market which had been upset by these changes, and retailers, loaded up with stocks for which there was no longer a brisk demand, were uncertain what the consuming public would next order. So they began a policy of hand-to-mouth buying, and this, of course, retarded the consumption of the excess stock held in the mills. Orders for new types of goods came in, but they were mostly in small lots, and production costs were accordingly increased. This practice of small lot manufacturing had the effect of raising retail prices, and now the cotton men are disposed to allocate part of the blame for their distress upon the retail merchants who, they assert, have kept the prices of cotton goods at so high a level that the public has found it profitable to use silks.

II

There has been in New England a strange conservatism about business methods, which is in striking contrast to the policy pursued by the textile leaders in the Southern States. There a strong spirit of co-operation prevails in the cotton industry, and through different organisations the manufacturers have been studying the market and creating new fields for cotton sales. One proof of this is to be found in the streets of Southern cities, where a new cotton hot-weather suit has virtually displaced the old type of linen clothing. There are also plans afoot for starting fashion shows all over the South to persuade women to

return to the use of cotton, and the possibilities of every foreign market have been carefully explored. In New England it has been suggested as a remedy for the local industries that the cotton mills should join in purchasing the plants of the textile machinery companies, and put an end to further expansion of the industry in the South by curtailing machinery sales.

The tariff issue also enters into the situation, and most cotton manufacturers, while desiring to maintain or increase their own schedules, are now anxious for a reduction of the tariff on everything but cotton products. They are inspired to this attitude by the belief that a lower tariff would decrease the living expense of workers and make labour cheaper; but it is doubtful if this hope will be realised, for the average wages of a cotton textile worker are, if anything, lower than in other industries. The tariff certainly has had the effect of keeping back an inflow of imported goods which would probably have completely wrecked the New England cotton industry, but to-day most of the cotton goods imported into the United States are of a class not manufactured in the Republic, and even their volume is decreasing, for there was a drop of 50 per cent. in cotton imports into the United States during the first half of 1926.

Involved as it is in these difficulties, the cotton industry now looks for succour to an organisation known as the Cotton Textile Institute, which has recently been formed by a group of textile men representing all branches of the industry in both the North and the South. It is a co-operative organisation, framed on the model of the Steel Institute, and has for the main object of its existence the scientific study of the textile market and the dissemination of useful trade information among its members. It was formed at the suggestion of Mr. Hoover, the Secretary of Commerce, and is enrolling members in the expectation that it will bring under its ægis half of the 38,000,000 spindles in the cotton industry. Each spindle will be assessed at 1 cent, which would give the association a working capital of at least $180,000. For its president and director there will be chosen some outstanding figure who is not connected with the cotton trade, and he will be endowed with almost autocratic powers.

The position was offered to Secretary Hoover himself, but he declined, and now the founders of the institute are contemplating an offer either to Mr. Owen D. Young, of the General Electric Company, or to Mr. J. A. Perkins, of the Farmers' Loan and Trust Company, of New York. There are some cotton men in New England who scoff at the idea of the institute, and assert that the problem of improving the cotton industry is for the individual mills to solve. There are other manufacturers in the South who look upon the organisation as an attempt to enlist the South for the salvation of the North, and they contend that the New England cotton industry is on its last legs, and might as well be allowed to languish to complete ruin. At present the South has its own cotton institute, which is doing on a small scale what the new textile institute hopes to accomplish with a more elaborate programme, and it is apparent that many Southern spinners will await results before they join the larger institution. But all the portents point to great difficulties in reviving the cotton industry of New England, and it is freely prophesied that within a few years cotton manufacture will be largely controlled in the Southern States, which already have 45 per cent. of the looms in the industry, and are producing about 65 per cent. of the nation's cotton goods.

APPENDIX VIII

Statement showing the progress of the cotton mill industry in Japan

Years	Companies	Mills	Capital		Reserve Funds
			Authorised	Paid-up	
			Yen.	Yen.	Yen.
1903	51	..	38,555,400	34,029,216	5,123,892
1904	49	..	37,125,400	33,486,730	6,888,594
1905	49	..	40,082,350	33,563,700	9,531,622
1906	47	..	45,403,350	38,433,350	15,386,948
1907	42	118	90,036,300	57,531,125	20,966,234
1908	36	125	85,511,300	58,397,385	22,189,614
1909	31	134	75,871,800	64,501,000	22,784,470
1910	36	136	94,271,300	67,516,013	24,658,967
1911	34	139	89,160,150	64,374,164	24,788,872
1912	41	147	105,136,400	72,366,495	28,538,314
1913	44	152	113,036,401	86,444,059	33,803,119
1914	42	157	109,676,400	85,820,424	36,639,349
1915	41	161	110,176,400	86,011,677	38,663,064
1916	40	161	137,290,150	99,641,818	48,952,381
1917	43	170	162,830,150	115,623,020	70,037,275
1918	43	177	192,877,650	138,494,595	92,426,047
1919	54	190	221,927,650	165,758,695	139,073,869
1920	56	198	394,327,650	276,535,896	165,697,053
1921 ..	61	217	429,577,650	295,648,358	182,040,774
1922	64	235	462,107,650	317,148,075	202,774,376
1923	60	228	463,977,650	323,787,485	211,298,943
1924	56	232	512,362,500	349,820,568	212,871,930
1925	54	230	509,213,000	351,805,000	221,778,000

Years	Number of Spindles			Doubling Spindles	Looms
	Ring	Mule	Total		
1903	1,295,086	86,220	1,381,306	126,976	5,043
1904	1,260,365	85,220	1,345,585	121,076	5,085
1905	1,343,534	83,060	1,426,594	134,840	8,140
1906	1,395,013	77,240	1,472,253	136,866	9,601
1907	1,492,032	48,420	1,540,452	154,789	9,462
1908	1,743,921	51,958	1,795,879	177,860	11,146
1909	1,903,854	51,038	1,954,892	227,574	13,813
1910	2,044,284	55,480	2,099,764	282,186	17,702
1911	2,117,756	53,040	2,170,796	286,410	20,431
1912	2,125,000	51,748	2,176,748	317,324	21,898
1913	2,365,094	49,405	2,414,499	320,912	24,224
1914	2,606,004	51,170	2,657,174	348,766	25,443
1915	2,754,124	53,390	2,807,514	355,318	30,068
1916	2,825,944	49,960	2,875,904	370,681	31,295
1917	3,008,568	51,910	3,060,478	383,458	36,181
1918	3,175,768	51,910	3,227,678	384,872	40,391
1919	3,435,932	52,330	3,488,262	410,690	44,401
1920	3,761,250	52,330	3,813,580	466,460	50,588
1921	4,116,616	44,510	4,161,126	538,384	54,994
1922	4,472,112	45,500	4,517,612	602,032	60,765
1923	4,183,596	14,370	4,197,966	501,031	61,421
1924	4,845,082	25,150	4,870,232	676,995	64,225
1925	5,152,000	34,000	5,186,000	752,000	68,160

APPENDIX IX

Draft Conventions adopted by the International Labour Conference at Washington in 1919

I—Draft Convention limiting the hours of work in industrial undertakings to eight in the day and forty-eight in the week

The General Conference of the International Labour Organisation of the League of Nations—

Having been convened at Washington by the Government of the United States of America on the 29th day of October, 1919, and

Having decided upon the adoption of certain proposals with regard to the "application of the principle of the 8 hours' day or of the 48 hours' week", which is the first item in the agenda for the Washington meeting of the Conference, and

Having determined that these proposals shall take the form of a draft international convention,

adopts the following draft convention for ratification by the Members of the International Labour Organisation, in accordance with the Labour Part of the Treaty of Versailles of 28th June, 1919, and of the Treaty of St. Germain of 10th September, 1919.

Article 1

For the purpose of this Convention, the term "industrial undertaking" includes particularly—

(*a*) Mines, quarries, and other works for the extraction of minerals from the earth.

(*b*) Industries in which articles are manufactured, altered, cleaned, repaired, ornamented, finished, adapted for sale, broken up or demolished, or in which materials are transformed, including shipbuilding and the generation, transformation, and transmission of electricity or motive power of any kind.

(*c*) Construction, reconstruction, maintenance, repair, alteration, or demolition of any building, railway, tramway, harbour, dock, pier, canal, inland waterway, road, tunnel, bridge, viaduct, sewer, drain, well, telegraphic or telephonic installation, electrical undertaking, gas work, waterwork or other work of construction, as well as the preparation for or laying the foundations of any such work or structure.

(*d*) Transport of passengers or goods by road, rail, sea or inland waterway, including the handling of goods at docks, quays, wharves or warehouses, but excluding transport by hand.

The provisions relative to transport by sea and on inland waterways shall be determined by a special conference dealing with employment at sea and on inland waterways.

The competent authority in each country shall define the line of division which separates industry from commerce and agriculture.

Article 2

The working hours of persons employed in any public or private industrial undertaking or in any branch thereof, other than an undertaking in which only members of the same family are employed, shall not exceed eight in the day and forty-eight in the week, with the exceptions hereinafter provided for:—

(*a*) The provisions of this Convention shall not apply to persons holding positions of supervision or management, nor to persons employed in a confidential capacity.

(*b*) Where by law, custom, or agreement between employers' and workers' organisations or, where no such organisations exist, between employers' and workers' representatives, the hours of work on one or more days of the week are less than eight, the limit of eight hours may be exceeded on the remaining days of the week by the sanction of the competent public authority, or by agreement between such organisations or representatives, provided, however, that in no case under the provisions of this paragraph shall the daily limit of eight hours be exceeded by more than one hour.

(*c*) Where persons are employed in shifts it shall be permissible to employ persons in excess of eight hours in any one day and forty-eight hours in any one week, if the average number of hours over a period of three weeks or less does not exceed eight per day and forty-eight per week.

Article 3

The limit of hours of work prescribed in Article 2 may be exceeded in case of accident, actual or threatened, or in case of urgent work to be done to machinery or plant, or in case of "force majeure", but only so far as may be necessary to avoid serious interference with the ordinary working of the undertaking.

Article 4

The limit of hours of work prescribed in Article 2 may also be exceeded in those processes which are required by reason of the nature of the process to be carried on continuously by a succession of shifts, subject to the condition that the working hours shall not exceed fifty-six in the week on the average. Such regulation of the hours of work shall in no case affect any rest days which may be secured by the national law to the workers in such processes in compensation for the weekly rest day.

Article 5

In exceptional cases where it is recognized that the provisions of Article 2 cannot be applied, but only in such cases, agreements between workers' and employers' organisations concerning the daily limit of work over a longer period of time may be given the force of regulations, if the Government, to which these agreements shall be submitted, so decides.

The average number of hours worked per week, over the number of weeks covered by any such agreement shall not exceed forty-eight.

Article 6

Regulations made by public authority shall determine for industrial undertakings :—

(*a*) The permanent exceptions that may be allowed in preparatory or complementary work which must necessarily be carried on outside the limits laid down for the general working of an establishment, or for certain classes of workers whose work is essentially intermittent.

(*b*) The temporary exceptions that may be allowed, so that establishments may deal with exceptional cases of pressure of work.

These regulations shall be made only after consultation with the organisations of employers and workers concerned, if any such organisations exist. These regulations shall fix the maximum of additional hours in each instance, and the rate of pay for overtime shall not be less than one and one-quarter times the regular rate.

Article 7

Each Government shall communicate to the International Labour Office :—

(*a*) A list of the processes which are classed as being necessarily continuous in character under Article 4 ;

(*b*) Full information as to working of the agreements mentioned in Article 5 ; and

(*c*) Full information concerning the regulations made under Article 6 and their application.

The International Labour Office shall make an annual report thereon to the General Conference of the International Labour Organisation.

Article 8

In order to facilitate the enforcement of the provisions of this Convention, every employer shall be required :—

(*a*) To notify by means of the posting of notices in conspicuous places in the works or other suitable place, or by such other method as may be approved by the Government, the hours at which work begins and ends, and where work is carried on by shifts, the hours at which each shift begins and ends. These hours shall be so fixed that the duration of the work shall not exceed the limits prescribed by this Convention, and when so notified they shall not be changed except with such notice and in such manner as may be approved by the Government.

(*b*) To notify in the same way such rest intervals accorded during the period of work as are not reckoned as part of the working hours.

(*c*) To keep a record in the form prescribed by law or regulation in each country of all additional hours worked in pursuance of Articles 3 and 6 of this Convention.

It shall be made an offence against the law to employ any person outside the hours fixed in accordance with paragraph (*a*), or during the intervals fixed in accordance with paragraph (*b*).

Article 9

In the application of this Convention to Japan the following modifications and conditions shall obtain :—

(*a*) The term " industrial undertaking " includes particularly—

The undertakings enumerated in paragraph (*a*) of Article 1 ;

The undertakings enumerated in paragraph (*b*) of Article 1, provided there are at least ten workers employed ;

The undertakings enumerated in paragraph (*c*) of Article 1, in so far as these undertakings shall be defined as " factories " by the competent authority ;

The undertakings enumerated in paragraph (*d*) of Article 1, except transport of passengers or goods by road, handling of goods at docks, quays, wharves, and warehouses, and transport by hand ; and

Regardless of the number of persons employed, such of the undertakings enumerated in paragraphs (*b*) and (*c*) of Article 1 as may be declared by the competent authority either to be highly dangerous or to involve unhealthy processes.

(*b*) The actual working hours of persons of fifteen years of age or over in any public or private industrial undertaking, or in any branch thereof, shall not exceed fifty-seven in the week, except that in the raw-silk industry the limit may be sixty hours in the week.

(*c*) The actual working hours of persons under fifteen years of age in any public or private industrial undertaking, or in any branch thereof, and of all miners of whatever age engaged in underground work in the mines, shall in no case exceed forty-eight in the week.

(*d*) The limit of hours of work may be modified under the conditions provided for in Articles 2, 3, 4 and 5 of this Convention, but in no case shall the length of such modification bear to the length of the basic week a proportion greater than that which obtains in those Articles.

(*e*) A weekly rest period of twenty-four consecutive hours shall be allowed to all classes of workers.

(*f*) The provision in Japanese factory legislation limiting its application to places employing fifteen or more persons shall be amended so that such legislation shall apply to places employing ten or more persons.

(*g*) The provisions of the above paragraphs of this Article shall be brought into operation not later than 1st July, 1922 except that the provisions of Article 4, as modified by paragraph (*d*) of this Article, shall be brought into operation not later than 1st July, 1923.

(*h*) The age of fifteen prescribed in paragraph (*c*) of this Article shall be raised, not later than 1st July, 1925, to sixteen.

Article 10

In British India the principle of a sixty-hour week shall be adopted for all workers in the industries at present covered by the Factory Acts administered by the Government of India, in mines, and in such branches of railway work as shall be specified for this purpose by the competent authority. Any modification of this limitation made by the competent authority shall be subject to the provisions of Articles 6 and 7 of this Convention. In other respects the provisions of this Convention shall not apply to India, but further provisions limiting the hours of work in India shall be considered at a future meeting of the General Conference.

Article 11

The provisions of this Convention shall not apply to China, Persia and Siam, but provisions limiting the hours of work in these countries shall be considered at a future meeting of the General Conference.

Article 12

In the application of this Convention to Greece, the date at which its provisions shall be brought into operation in accordance with Article 19 may be extended to not later than 1st July, 1923, in the case of the following industrial undertakings :—

(1) Carbon-bisulphide works,

(2) Acids works,

(3) Tanneries,

(4) Paper mills,

(5) Printing works,

(6) Sawmills,

(7) Warehouses for the handling and preparation of tobacco,

(8) Surface mining,

(9) Foundries,

(10) Lime works,

(11) Dye works,

(12) Glass works (blowers),

(13) Gas works (firemen),

(14) Loading and unloading merchandise;

and to not later than 1st July, 1924, in the case of the following industrial undertakings:—

(1) *Mechanical industries.*—Machine shops for engines, safes, scales, beds, tacks, shells (sporting), iron foundries, bronze foundries, tin shops, plating shops, manufactories of hydraulic apparatus;

(2) *Constructional industries.*—Lime-kilns, cement works, plasters' shops, tile yards, manufactories of bricks and pavements, potteries, marble yards, excavating and building work;

(3) *Textile industries.*—Spinning and weaving mills of all kinds, except dye works;

(4) *Food industries.*—Flour and grist-mills, bakeries, macaroni factories, manufactories of wines, alcohol, and drinks, oil works, breweries, manufactories of ice and carbonated drinks, manufactories of confectioners' products and chocolate, manufactories of sausages and preserves, slaughterhouses, and butcher shops;

(5) *Chemical industries.*—Manufactories of synthetic colours, glassworks (except the blowers), manufactories of essence of turpentine and tartar, manufactories of oxygen and pharmaceutical products, manufactories of flaxseed oil, manufactories of glycerine, manufactories of calcium carbide, gas works (except the firemen);

(6) *Leather industries.*—Shoe factories, manufactories of leather goods;

(7) *Paper and printing industries.*—Manufactories of envelopes, record books, boxes, bags, bookbinding, lithographing, and zincengraving shops;

(8) *Clothing industries.*—Clothing shops, underwear and trimmings, workshops for pressing, workshops for bed coverings, artificial flowers, feathers, and trimmings, hat and umbrella factories;

(9) *Woodworking industries.*—Joiners' shops, coopers' sheds, wagon factories, manufactories of furniture and chairs, picture-framing establishments, brush and broom factories;

(10) *Electrical industries.*—Power houses, shops for electrical installations;

(11) *Transportation by land.*—Employees on railroads and street cars, firemen, drivers, and carters.

Article 13

In the application of this Convention to Roumania the date at which its provisions shall be brought into operation in accordance with Article 19 may be extended to not later than 1st July, 1924.

Article 14

The operation of the provisions of this Convention may be suspended in any country by the Government in the event of war or other emergency endangering the national safety.

Article 15

The formal ratifications of this Convention, under the conditions set forth in Part XIII of the Treaty of Versailles of 28th June, 1919, and of the Treaty of St. Germain of 10th September, 1919, shall be communicated to the Secretary General of the League of Nations for registration.

Article 16

Each Member of the International Labour Organisation which ratifies this Convention engages to apply it to its colonies, protectorates and possessions which are not fully self-governing:—

(*a*) Except where owing to the local conditions its provisions are inapplicable; or

(*b*) Subject to such modifications as may be necessary to adapt its provisions to local conditions.

Each Member shall notify to the International Labour Office the action taken in respect of each of its colonies, protectorates, and possessions which are not fully self-governing.

Article 17

As soon as the ratifications of two Members of the International Labour Organisation have been registered with the Secretariat, the Secretary General of the League of Nations shall so notify all the Members of the International Labour Organisation.

Article 18

This Convention shall come into force at the date on which such notification is issued by the Secretary-General of the League of Nations, and it shall then be binding only upon those Members which have registered their ratifications with the Secretariat. Thereafter this Convention will come into force for any other Member at the date on which its ratification is registered with the Secretariat.

Article 19

Each Member which ratifies this Convention agrees to bring its provisions into operation not later than 1st July, 1921, and to take such action as may be necessary to make these provisions effective.

Article 20

A Member which has ratified this Convention may denounce it after the expiration of ten years from the date on which the Convention first comes into force, by an act communicated to the Secretary-General of the League of Nations for registration. Such denunciation shall not take effect until one year after the date on which it is registered with the Secretariat.

Article 21

At least once in ten years the Governing Body of the International Labour Office shall present to the General Conference a report on the working of this Convention, and shall consider the desirability of placing on the agenda of the Conference the question of its revision or modification.

Article 22

The French and English texts of this Convention shall both be authentic.

II. Draft Convention concerning employment of women during the night.

The General Conference of the International Labour Organisation of the League of Nations,

Having been convened at Washington by the Government of the United States of America on the 29th day of October, 1919, and

Having decided upon the adoption of certain proposals with regard to "women's employment during the night", which is part of the third item in the agenda for the Washington meeting of the Conference, and

Having determined that these proposals shall take the form of a draft international convention,

adopts the following Draft Convention for ratifications by the Members of the International Labour Organisation, in accordance with the Labour Part of the Treaty of Versailles of 28th June, 1919, and of the Treaty of St. Germain of 10th September, 1919.

Article 1

For the purpose of this Convention, the term "industrial undertaking" includes particularly:

(*a*) Mines, quarries, and other works for the extraction of minerals from the earth.

(*b*) Industries in which articles are manufactured, altered, cleaned, repaired, ornamented, finished, adapted for sale, broken up or demolished, or in which materials are transformed; including shipbuilding, and the generation, transformation and transmission of electricity or motive power of any kind;

(*c*) Construction, reconstruction, maintenance, repair, alteration or demolition of any building, railway, tramway, harbour, dock, pier, canal, inland waterway, road, tunnel, bridge, viaduct, sewer, drain, well, telegraphic or telephonic installation, electrical undertaking, gas work, waterwork, or other work of construction as well as the preparation for or laying the foundations of any such work or structure.

The competent authority in each country shall define the line of division which separates industry from commerce and agriculture.

Article 2

For the purpose of this Convention, the term "night" signifies a period of at least eleven consecutive hours, including the interval between ten o'clock in the evening and five o'clock in the morning.

In those countries where no Government regulation as yet applies to the employment of women in industrial undertakings during the night, the term "night" may provisionally, and for a maximum period of three years, be declared by the Government to signify a period of only ten hours, including the interval between ten o'clock in the evening and five o'clock in the morning.

Article 3

Women without distinction of age shall not be employed during the night in any public or private industrial undertaking, or in any branch thereof, other than an undertaking in which only members of the same family are employed.

Article 4

Article 3 shall not apply:

(*a*) In cases of *force majeure*, when in any undertaking there occurs an interruption of work which it was impossible to foresee, and which is not of a recurring character.

(*b*) In cases where the work has to do with raw materials or materials in course of treatment which are subject to rapid deterioration, when such night work is necessary to preserve the said materials from certain loss.

Article 5

In India and Siam, the application of Article 3 of this Convention may be suspended by the Government in respect to any industrial undertaking, except factories as defined by the national law. Notice of every such suspension shall be filed with the International Labour Office.

Article 6

In industrial undertakings which are influenced by the seasons and in all cases where exceptional circumstances demand it, the night period may be reduced to ten hours on sixty days of the year.

Article 7

In countries where the climate renders work by day particularly trying to the health, the night period may be shorter than prescribed in the above articles, provided that compensatory rest is accorded during the day.

Article 8

The formal ratifications of this Convention, under the conditions set forth in Part XIII of the Treaty of Versailles of 28th June, 1919, and of the Treaty of St. Germain of 10th September, 1919, shall be communicated to the Secretary-General of the League of Nations for registration.

Article 9

Each Member of the International Labour Organisation which ratifies this Convention engages to apply it to its colonies, protectorates and possessions which are not fully self-governing:

(*a*) Except where owing to the local conditions its provisions are inapplicable; or

(*b*) Subject to such modifications as may be necessary to adapt its provisions to local conditions.

Each Member shall notify to the International Labour Office the action taken in respect of each of its colonies, protectorates and possessions which are not fully self-governing.

Article 10

As soon as the ratifications of two Members of the International Labour Organisation have been registered with the Secretariat, the Secretary-General of the League of Nations shall so notify all the Members of the International Labour Organisation.

Article 11

This Convention shall come into force at the date on which such notification is issued by the Secretary-General of the League of Nations, but it shall then be binding only upon those Members which have registered their ratifications with the Secretariat. Thereafter this Convention will come into force for any other Member at the date on which its ratification is registered with the Secretariat.

Article 12

Each Member which ratifies this Convention agrees to bring its provisions into operation not later than 1st July, 1922, and to take such action as may be necessary to make these provisions effective.

Article 13

A Member which has ratified this Convention may denounce it after the expiration of ten years from the date on which the Convention first comes into force, by an act communicated to the Secretary-General of the League of Nations for registration. Such denunciation shall not take effect until one year after the date on which it is registered with the Secretariat.

Article 14

At least once in ten years, the Governing Body of the International Labour Office shall present to the General Conference a report on the working of this Convention, and shall consider the desirability of placing on the agenda of the Conference the question of its revision or modification.

Article 15

The French and English texts of this Convention shall both be authentic.

III. Draft Convention concerning the night work of young persons employed in Industry

The General Conference of the International Labour Organisation of the League of Nations,

Having been convened by the Government of the United States of America at Washington on the 29th day of October, 1919, and

Having decided upon the adoption of certain proposals with regard to the "employment of children during the night," which is part of the fourth item in the agenda for the Washington meeting of the Conference, and

Having determined that these proposals shall take the form of a draft international convention,

adopts the following Draft Convention for ratification by the Members of the International Labour Organisation, in accordance with the Labour Part of the Treaty of Versailles of 28th June, 1919, and of the Treaty of St. Germain of 10th September, 1919.

Article 1

For the purpose of this Convention, the term "industrial undertaking" includes particularly:

(*a*) Mines, quarries, and other works for the extraction of minerals from the earth.

(*b*) Industries in which articles are manufactured, altered, cleaned, repaired, ornamented, finished, adapted for sale, broken up, or demolished, or in which materials are transformed; including shipbuilding, and the generation, transformation, and transmission of electricity or motive power of any kind.

(c) Construction, reconstruction, maintenance, repair, alteration, or demolition of any building, railway, tramway, harbour, dock, pier, canal, inland waterway, road, tunnel, bridge, viaduct, sewer, drain, well, telegraphic or telephonic installation, electrical undertaking, gas work, water work, or other work of construction as well as the preparation for or laying the foundations of any such work or structure.

(d) Transport of passengers or goods by road or rail, including the handling of goods at docks, quays, wharves, and warehouses, but excluding transport by hand.

The competent authority in each country shall define the line of division which separates industry from commerce and agriculture.

Article 2

Young persons under eighteen years of age shall not be employed during the night in any public or private industrial undertaking or in any branch thereof, other than an undertaking in which only members of the same family are employed, except as hereinafter provided for.

Young persons over the age of sixteen may be employed during the night in the following industrial undertakings on work which by reasons of the nature of the process, is required to be carried on continuously day and night:

(a) Manufacture of iron and steel; processes in which reverberatory or regenerative furnaces are used, and galvanizing of sheet metal or wire (except the pickling process).

(b) Glass works.

(c) Manufacture of paper,

(d) Manufacture of raw sugar.

(e) Gold mining reduction work.

Article 3

For the purpose of this Convention, the term "night" signifies a period of at least eleven consecutive hours, including the interval between ten o'clock in the evening and five o'clock in the morning.

In coal and lignite mines work may be carried on in the interval between ten o'clock in the evening and five o'clock in the morning, if an interval of ordinarily fifteen hours, and in no case of less than thirteen hours, separates two periods of work.

When night work in the baking industry is prohibited for all workers, the interval between nine o'clock in the evening and four o'clock in the morning may be substituted in the baking industry for the interval between ten o'clock in the evening and five o'clock in the morning.

In those tropical countries in which work is suspended during the middle of the day the night period may be shorter than eleven hours if compensatory rest is accorded during the day.

Article 4

The provisions of Articles 2 and 3 shall not apply to the night work of young persons between the ages of sixteen and eighteen years in cases of emergencies which could not have been controlled or foreseen, which are not of a periodical character, and which interfere with the normal working of the industrial undertaking.

Article 5

In the application of this Convention to Japan, until 1st July, 1925, Article 2 shall apply only to young persons under fifteen years of age and thereafter it shall apply only to young persons under sixteen years of age.

Article 6

In the application of this Convention to India, the term "Industrial undertaking" shall include only "factories" as defined in the Indian Factory Act and Article 2 shall not apply to male young persons over fourteen years of age.

Article 7

The prohibition of night work may be suspended by the Government, for young persons between the ages of sixteen and eighteen years, when in case of serious emergency the public interest demands it.

Article 8

The formal ratifications of this Convention, under the conditions set forth in Part XIII of the Treaty of Versailles of 28th June, 1919, and of the Treaty of St. Germain of 10th September, 1919, shall be communicated to the Secretary-General of the League of Nations for registration.

Article 9

Each Member of the International Labour Organisation which ratified this Convention engages to apply it to its colonies, protectorates and possessions which are not fully self-governing:

(*a*) Except where owing to the local conditions its provisions are inapplicable; or

(*b*) Subject to such modifications as may be necessary to adapt its provisions to local conditions.

Each Member shall notify to the International Labour Office the action taken in respect of each of its colonies, protectorates and possessions which are not fully self-governing.

Article 10

As soon as the ratifications of two Members of the International Labour Organisation have been registered with the Secretariat, the Secretary-General of the League of Nations shall so notify all the Members of the International Labour Organisation.

Article 11

This Convention shall come into force at the date on which such notification is issued by the Secretary-General of the League of Nations, and it shall then be binding only upon those Members which have registered their ratifications with the Secretariat. Thereafter this Convention will come into force for any other Member at the date on which its ratification is registered with the Secretariat.

Article 12

Each Member which ratifies this Convention agrees to bring its provisions into operation not later than 1st July, 1922, and to take such action as may be necessary to make these provisions effective.

Article 13

A Member which has ratified this Convention may denounce it after the expiration of ten years from the date on which the Convention first comes into force, by an act communicated to the Secretary-General of the League of Nations for registration. Such denunciation shall not take effect until one year after the date on which it is registered with the Secretariat.

Article 14

At least once in ten years the Governing Body of the International Labour Office shall present to the General Conference a report on the working of this Convention, and shall consider the desirability of placing on the agenda of the Conference the question of its revision or modification.

Article 15

The French and English texts of this Convention shall both be authentic.

APPENDIX X

Gain to Japan due to interest on depreciation consequent on double shift working

Mill with 30,000 spindles and 1,000 looms (spinning and weaving 20s counts)

	Rs.
Cost of building	15,35,210
Cost of machinery	30,11,503

	1st year	2nd year	3rd year	4th year	5th year
	Rs.	Rs.	Rs.	Rs.	Rs.
(1) Depreciation fund at 2½ per cent. and 5 per cent. : India—day shift	1,88,955	3,77,910	5,66,865	7,55,820	9,44,775
(2) Depreciation fund at 3½ per cent. and 10 per cent. : Japan—day and night shift ..	3,54,882	7,09,764	10,64,646	14,19,528	17,74,410
(3) Extra amount of depreciation earned	1,65,927	3,31,854	4,97,781	6,63,708	8,29,635
(4) Interest at 6 per cent. ..	9,955	19,910	29,865	39,820	49,775
(5) Interest per loom per annum	9·95	19·91	29·86	39·82	49·77
(6) Interest per loom per day (pies)	6·17	12·34	18·51	24·68	30·85

	6th year	7th year	8th year	9th year	10th year
	Rs.	Rs.	Rs.	Rs.	Rs.
(1) Depreciation fund at 2½ per cent. and 5 per cent. : India—day shift	11,33,730	13,22,685	15,11,640	17,00,595	18,89,550
(2) Depreciation fund at 3½ per cent. and 10 per cent. : Japan—day and night shift ..	21,29,292	24,84,174	28,39,056	31,93,938	35,48,820
(3) Extra amount of depreciation earned	9,95,562	11,61,489	13,27,416	14,93,343	16,59,270
(4) Interest at 6 per cent. ..	59,730	69,685	79,640	89,595	99,550
(5) Interest per loom per annum	59·73	69·68	79·64	89·59	99·55
(6) Interest per loom per day (pies)	37·02	43·19	49·36	55·53	61·70

APPENDIX XI

TABLE I

Financial condition of cotton spinning companies in Japan during the period from 1916 to 1925

(Amounts in millions of yen)

Business period (half years)	Number of Companies	Liabilities			Assets		
		Authorised capital	Paid up capital	Reserve funds	Loans, etc.	Fixed assets	Amount brought forward
1916 1st half	32	106·2	84·0	38·7	23·6	116·4	8·4
1916 2nd half	32	132·2	96·8	41·0	23·9	110·8	10·5
1917 1st half	32	150·7	106·2	49·1	25·7	109·2	12·9
1917 2nd half	33	156·6	111·6	62·2	27·5	103·4	16·9
1918 1st half	33	173·1	124.4	67·7	29·3	113·1	23·2
1918 2nd half	35	190·0	135·6	80·2	27·5	123·0	23·4
1919 1st half	38	197·3	142·8	97·6	28·6	130·2	26·1
1919 2nd half	46	217·6	162·9	120·0	25·7	143·0	29·3
1920 1st half	51	313·3	246·1	124·2	26·0	167·6	31·7
1920 2nd half	51	390·0	273·2	156·7	34·4	187·3	37·9
1921 1st half	51	394·5	275·3	164·0	31·2	207·3	31·7
1921 2nd half	57	427·8	294·9	173·7	22·7	246·3	32·2
1922 1st half	63	468·1	315·9	185·3	21·5	281·7	41·1
1922 2nd half	60	463·4	313·8	195·2	24·9	296·1	46·2
1923 1st half	55	450·7	311·0	203·0	31·1	332·5	47·3
1923 2nd half	55	458·2	319·1	207·9	35·9	352·7	46·1
1924 1st half	50	483·7	329·6	200·7	38·1	355·9	37·8
1924 2nd half	52	503·7	344·6	206·4	46·2	391·0	37·6
1925 1st half	51	505·5	345·3	211·5	57·1	410·4	45·6
1925 2nd half	51	505·5	349·1	218·8	67·6	425·1	47·6
Average, 1911-1915		101·1	75·0	30·5	22·8	105·6	4·8
Do. 1916-1920		202·7	148·4	83·7	27·2	130·4	22·0
Increase :— Amount		101·6	73·4	53·2	4·4	24·8	17·2
Per cent.		100·5	97·8	174·4	19·3	23·5	358·3
Average, 1916-1920		202·7	148·4	83·7	27·2	130·4	22·0
Do. 1921-1925		466·1	319·9	196·6	37·6	330·1	41·3
Increase :— Amount		263·4	171·5	112·9	10·4	199·7	19·3
Per cent.		129·9	115·6	134·3	38·2	153·1	80·5
Average, 1911-1915		101·1	75·0	30·5	22·8	105·6	4·8
Do. 1921-1925		466·1	319·9	196·6	37·6	330·1	41·3
Increase :— Amount		365·0	244·9	166·1	14·8	224·5	36·5
Per cent.		361·0	326·5	544·6	64·9	212·6	760·4

TABLE II

Gross earnings and distribution of profits of cotton spinning companies in Japan during the period from 1916 to 1925

(Amounts in millions of yen)

Business period (half years)	Gross earnings		Written off to depreciation		Net profits (gross earnings less depreciation)		Carried to reserve	Carried forward	Amount paid in dividends	Annual rate of dividend on paid up capital
	Amount	Ratio to paid up capital	Amount	Ratio to fixed assets	Amount	Ratio to paid up capital	Amount	Amount		
		P. c.		P. c.		P. c.				
1916 1st half	17·2	20·36	4·0	3·40	13·2	15·71	2·7	10·6	8·3	19·8
1916 2nd half	33·7	34·82	11·1	9·98	22·6	23·35	8·9	12·8	11·4	23·5
1917 1st half	40·8	38·40	9·3	8·55	31·4	29·65	9·1	17·4	17·8	33·4
1917 2nd half	49·2	44·12	7·9	7·80	41·3	37·02	12·0	23·3	22·9	41·1
1918 1st half	54·7	43·97	9·5	8·38	45·2	36·34	12·2	23·4	32·8	52·7
1918 2nd half	62·8	46·31	9·0	7·30	53·8	39·79	17·4	26·1	33·7	49·7
1919 1st half	64·8	45·41	9·2	7·11	56·6	38·92	17·2	28·9	35·6	49·9
1919 2nd half	84·4	51·97	11·3	7·92	93·0	44·80	25·7	35·2	41·4	51·0
1920 1st half	113·3	46·04	10·8	6·44	102·5	41·65	36·3	38·4	59·5	48·4
1920 2nd half	46·2	16·59	7·1	3·79	39·1	14·31	9·2	31·6	36·2	26·5
1921 1st half	38·3	13·91	4·3	2·07	34·0	12·35	5·3	29·0	31·3	22·3
1921 2nd half	69·7	23·63	9·8	3·98	55·9	19·97	10·5	41·4	39·2	26·6
1922 1st half	62·8	19·88	8·1	2·87	54·7	17·32	10·4	45·9	39·5	25·0
1922 2nd half	52·6	16·74	6·4	2·16	46·2	14·72	8·7	46·9	36·9	23·5
1923 1st half	45·6	14·66	5·6	1·68	40·0	12·68	7·8	46·6	32·9	21·1
1923 2nd half	23·8	7·46	3·5	·99	20·3	6·36	4·0	35·9	26·5	16·7
1924 1st half	39·4	11·95	5·6	1·57	33·8	10·25	5·9	39·0	26·8	16·2
1924 2nd half	42·6	12·36	6·8	1·74	35·8	10·39	6·5	38·8	28·1	16·3
1925 1st half	46·1	13·35	8·4	2·05	37·7	10·93	6·5	47·6	29·3	16·9
1925 2nd half	33·2	9·51	7·5	1·76	25·8	7·39	5·8	39·0	28·6	16·4
Average, 1911-1915	9·8	..	2·5	..	7·3	..	1·5	5·5	5·3	13·6
Do. 1916-1920	56·7	..	8·9	..	47·8	..	15·1	24·8	30·0	41·6
Increase— Amount	46·9	..	6·4	..	40·5	..	13·6	19·3	24·7	28·0
Per cent.	478·4	..	256·0	..	544·8	..	906·6	350·9	466·0	205·0
Average, 1916-1920	56·7	..	8·9	..	47·8	..	15·1	24·8	30·0	41·6
Do. 1921-1925	45·4	..	6·6	..	38·7	..	7·3	41·0	32·0	20·1
Increase or decrease— Amount	—11·3	..	—2·3	..	—9·1	..	—7·8	+16·2	+2·0	-21·5
Per cent.	19·9	..	25·8	..	19·0	..	51·7	65·3	6·6	51·7
Average, 1911-1915	9·8	..	2·5	..	7·3	..	1·5	5·5	5·3	13·6
Do. 1921-1925	45·4	..	6·6	..	38·7	..	7·3	41·0	32·0	20·1
Increase— Amount	35·6	..	4·1	..	31·4	..	5·8	35·5	26·7	6·5
Per cent.	363·2	..	104·0	..	430·1	..	396·6	645·4	503·8	47·8

APPENDIX XII

Table showing the total number of spindles and looms under each managing agency in Bombay with the total subscribed capital of the mills of each agency

	Managing Agents	Number of mills	Spindles	Looms	Capital
					Rs.
1.	Currimbhoy Ebrahim & Co.	11	517,282	10,464	2,49,56,630
2.	E. D. Sassoon & Co., Ltd. ..	12	516,446	11,325	7,26,00,000
3.	Tata Sons & Co. ..	4	211,912	5,708	96,85,500
4.	D. M. Petit Sons & Co. ..	4	185,944	5,811	48,59,500
5.	Nowrosji Wadia & Sons ..	2	180,216	4,810	62,74,500
6.	W. H. Brady & Co. ..	5	161,620	2,299	66,98,750
7.	Thackersey Mooljee & Co. ..	3	125,776	3,102	33,00,000
8.	James Finlay & Co. ..	3	120,160	2,452	94,62,450
9.	C. N. Wadia & Co. ..	2	111,338	3,001	18,50,000
10.	David Sassoon & Co. ..	2	98,416	2,142	27,50,000
11.	Mathradas Goculdas & Co.	3	97,284	697	77,51,195
12.	Morarjee Goculdas & Co. ..	1	82,928	1,605	11,50,000
13.	Killick Nixon & Co. ..	1	69,200	1,394	20,00,000
14.	Khatau Makanji & Co. ..	1	62,844	1,511	29,95,000
15.	Mangaldas Mehta & Co. ..	2	59,536	1,008	23,00,000
16.	Ramnarain Harnandrai & Sons	1	54,072	696	8,00,000
17.	B. D. Petit Sons & Co. ..	1	46,452	1,383	15,00,000
18.	Pransukhlal Mafatlal ..	1	46,064	..	13,25,000
19.	Allana Rahimtoola & Co. ..	2	44,678	400	60,98,800
20.	Kilachand Devchand & Co.	1	43,846	..	39,85,600
21.	Purshotam Vithaldas & Co.	1	41,768	968	2,00,000
22.	Vussunjee Munjee & Co. ..	1	40,944	1,026	9,00,000
23.	Sassoon J. David & Co. ..	1	39,816	..	8,00,000
24.	Commissariat & Co. ..	1	39,208	600	13,24,215
25.	Allen Brothers	1	38,144	1,265	22,50,000
26.	Goculdas Madhavjee Sons & Co.	1	37,452	903	20,25,000
27.	Hormusji Sons & Co. ..	1	33,648	797	22,40,770
28.	Abdoolabhoy Joomabhoy Lalljee & Co. ..	1	33,516	663	11,00,000
29.	P. A. Hormarji & Co. ..	1	32,782	756	2,50,000
30.	Toyo Menka Kaisha, Ltd. ..	1	31,992	758	20,00,000
31.	Partapgir Narsingirji & Co.	1	31,586	929	17,04,000
32.	Hormusji Ardeshir & Son ..	1	31,300	494	13,32,100
33.	Waljee Shamji & Co. ..	1	31,212	914	12,00,000
34.	Ragavji Maganlal & Co. ..	1	30,544	840	12,00,000
35.	Turner, Morrison & Co. ..	1	29,104	744	10,00,000
36.	Morarbhai Vijbhukhandas & Co.	1	28,116	592	7,00,000
37.	Cowasjee Jehangir & Co. ..	1	27,640	719	13,00,000
38.	Mafatlal Gagalbhai ..	1	19,652	560	Proprietary
39.	Govindalal & Co. ..	1	18,908	..	15,21,000
40.	Hormusji & Co. ..	1	13,152	365	12,00,000
41.	Lowjee Meghjee & Co. ..	1	6,144	..	Proprietary
	Total ..	83	3,472,642	73,701	19,65,90,010

APPENDIX XIII

Letter received from the Indian Central Cotton Committee giving an estimate of the quantity of Indian cotton suitable for spinning higher counts

I have the honour to acknowledge receipt of your letter No. 1200 of 1926, dated the 1st November 1926, and to state that it is not easy to give a definite opinion on the matter raised in your letter. I have consulted the Director of our Spinning Laboratory, Matunga, and he estimates that no Indian long stapled cotton is really suitable for warp yarn above 36s counts. All the cottons which come within 30/36s warp range would be suitable for weft of rather above 36s counts.

With regard to Indian long stapled cottons the following table may be taken to summarize the position. This table is based on our spinning tests for standard Indian cottons and it is assumed that the crop which is outside our standards will be of inferior quality to these standards. Further, the proportions mentioned in the undernoted table may very possibly not be realised if the season is an unfavourable one :—

Cotton	Estimated crop in 1925-26 in 000 bales	Suitable for warp 30/36	For weft 30/36
(1) Oomras Hyderabad Gaorani (bani)	550	..	..
(2) Broach (part) Surat Navsari mostly 1027 A.L.F. (1″ staple).	127	127	..
(3) Broach (part) Surat Navsari mostly 1027 A.L.F. (others).	87	..	..
(4) Kumpta Dharwar Gadag No. 1 (staple 1″) ..	21	21	..
(5) Kumpta Dharwar No. 1 (staple 7/8″) ..	30	30	..
(6) Kumpta Dharwar Gadag No. 1, other Kumpta and Dharwar American.	263	..	..
(7) Western and Northerns—			
(a) Nandyal 14 (staple 15/16-1″) ..	3	3	..
(b) Hagari 25 (7/8″)	25	25	..
(c) Others	345	..	..
(8) Tinnevellys—			
(a) Karunganni (7/8″)	60	..	60
(b) Other Tinnevellys	106	..	..
(9) Salems and Cambodia— ..			
(a) Irrigated Cambodia (staple 1″—1 1/8″) ..	113	113	..
(b) Other Cambodias and Salems ..	85	..	..
(10) Punjab and Sind Americans (staple 15/16″—1 1/8″.)	330	6	..
	Total in 1,000 bales	324	60

Therefore taking the total Indian crop at six million bales, there will be a two million bale crop of long staple cotton of which 3,20,000 bales or 16 per cent. may be taken as suitable for warp yarn of 30/36s counts and an additional 60,000 bales or 3 per cent. suitable for weft yarn of 30/36s counts.

APPENDIX XIV

Correspondence between the Government of India and the Bombay Millowners' Association prior to the appointment of the Tariff Board

Letter from the Secretary, Bombay Millowners' Association, Bombay, No. 388/32-C of 1926, dated Bombay, the 9th March 1926

In continuation of Mr. N. N. Wadia's letter of the 22nd February and as requested in your D.O. No. 341-T (9), I have the honour to submit for the consideration of the Honourable Member of the Commerce Department in the Government of India, a concise statement of my Committee's views in regard to the competition which India is at present meeting from Japan.

My Committee's views can be stated in a very few lines. They maintain that the Indian cotton textile industry is suffering from unfair competition from Japan by reason of the fact that Japan has not carried out the International Labour Conventions regarding hours of work and weekly holidays, and the employment of women and young persons at night. In 1919, an International Labour Conference was held at Washington. The object of that Conference and the annual International Labour Conferences which have since taken place was the improvement of the conditions of labour for the working classes of countries, members of the League of Nations, by the institution of an International Labour Code for the regulation of labour. One of the essentials for the successful inauguration and application of such a Code is that the chief industrial nations of the world should put into operation the Conventions passed at these International Conferences for, unless this is done, those countries which put into operation any conventions for improving labour conditions will be adversely affected when competing against countries which fail to improve their labour conditions in the same manner.

By far the most important Conventions passed at these International Conferences are those relating to hours of work and the non-employment of women at night.

These two Conventions were passed at the Washington Conference in 1919. The Hours Convention lays down a sixty-hour working week for workers in India and a fifty-seven hour working week for workers in Japan. The Convention relating to women's employment lays down that women shall not be employed during the night in any public or private industrial undertaking. Japan and India were both represented at the Washington Conference and all the representatives of both the countries agreed to these two Conventions.

After the results of the Conference had been conveyed to them, the Government of India took immediate action, and the Factory Amendment Act of 1922 fulfilled India's obligations in respect of the two Conventions referred to above. Japan, on the other hand, has failed so far to carry out these two Conventions and has apparently no intention of doing so till 31st August 1931 at the earliest (*vide* Appendix I to notes), with the result that her textile mills have an unfair advantage when competing against Indian textile mills owing to the fact that women are employed on night work, and working hours are longer than in Indian mills (*vide* monthly statistics issued by Japan Cotton Spinners' Association). Chiefly by reason of these unfair advantages, Japan has been able to place increased quantities of yarn and piecegoods in India and in Indian export markets at prices to compete against which, Indian mills have had to run at a loss. My Committee maintain that when the Government of India enforced these two Conventions, they thereupon took upon themselves the onus of seeing that Indian industries should not be unfairly penalised owing to non-ratification by her industrial competitors, and consider that immediate action should be taken to prevent the continuation of the advantages Japan at present enjoys.

Since it is not possible to take effective steps against Japan through the International Labour Office, owing to the Conventions not being of a mandatory nature, my Committee consider in the interests of Indian labour and the Indian textile industry, that additional duties should be imposed upon the imports of piecegoods and yarn from Japan into India until Japan prohibits the employment of women at night, and reduces the length of the working week per operative to conform with the Hours Convention.

The extra import duty which should be imposed on Japanese piecegoods and yarn, my Committee maintain, should be equivalent to the approximate saving in cost of production which Japanese mills enjoy owing to not having ratified these Conventions. This could be estimated by calculating the saving in cost of production which Indian mills would have obtained if run under the same conditions as regards hours of labour and night work for women. My Committee are fully aware that double shift working is ostensibly permissible in all countries, but if night work for women were prohibited

in Japan, double shift working for the textile industry would be just as impossible there as it has proved in Bombay owing to the insufficiency of male labour. This fact is borne out by the statistics of the Japanese Master Cotton Spinners Association which show that 80 per cent. of the total workers employed in the cotton mills of Japan are women. The true gain to the Japanese cotton industry by the employment of women at night does not therefore only amount to the difference in the cost of female labour as against male labour on night work, but to the reduction in cost of production obtained by working double shifts as compared with single shifts.

My Committee suggest that for the specific purpose outlined in the preceding paragraph an *ad hoc* committee, including a proportion of textile experts, should be immediately appointed and asked to report without delay. If the Government of India are prepared to agree to this suggestion, this Association would be prepared to render every assistance in order to enable the Committee to arrive at accurate conclusions as to the extent of the extra import duty which should be imposed, provided any evidence they give is considered confidential.

Though for the past two or three years the textile industry of India has been very adversely affected owing to the depreciating value of the yen, the appreciating value of the rupee and other reasons, my Committee do not, at the present juncture, wish to make any claim for general protection. They consider that if safeguarded from unfair competition, the Indian textile industry will at least be able to retain its home market.

Finally, my Committee wish to draw the attention of the Government of India to the difficult position of the cotton textile industry which is proved by the loss of five crores sustained by the cotton mills of Bombay City and Island in the last three years, and the need for early and effective action against Japan if the cotton industry of India is to survive the present crisis.

My Committee understand that the Honourable Sir Charles Innes will be in Bombay on the 1st April 1926, and they will be very pleased if he, and if possible, the Honourable Mr. Chadwick will kindly make it convenient to meet them in the afternoon on that day to discuss the points raised in this letter, and in the Commerce Department's reply.

Letter to the Secretary, Bombay Millowners' Association, Bombay, No. 341-T. (9) dated Delhi, the 26th March 1926

I am directed to reply to your letter No. 388 32-C of the 9th March 1926. This letter contains a concise statement of the views of your Committee in regard to the competition from Japan which the Indian mill industry is now experiencing and the Government of India will endeavour to be equally concise in their reply.

2. Your Committee makes it clear that at present it does not think it necessary to make any request for what is called in your letter "general protection". But it considers that the competition from Japan is in some respect unfair. It considers it unfair because whereas India has ratified and carried into effect the Conventions adopted by the International Labour Office at the Washington Conference in 1919 concerning hours of work in industrial undertakings, the employment of women during the night and the night work of young persons employed in industries, Japan, on the other hand, though its representatives at the Conference agreed to the above Conventions, has neither ratified them nor carried them into effect. The result is, in the opinion of your Committee, that Japanese millowners have an unfair advantage over millowners in India, and it is mainly owing to this unfair advantage that they have been able to increase the sale of Japanese yarn and cloth in India. The further point is made that the Government of India cannot disclaim responsibility for this state of things. "My Committee maintain," the letter states, "that when the Government of India enforced these two Conventions, they took upon themselves the onus of seeing that Indian industries should not be unfairly penalised owing to non-ratification by her industrial competitors, and consider that immediate steps should be taken to prevent the continuation of the advantages Japan at present enjoys". Your Committee, therefore, holds that it is incumbent on the Government of India to safeguard the Indian textile industry from this "unfair competition" and with this object in view it suggests—

(1) that so long as Japan does not carry into effect the Conventions mentioned above, Japanese yarn and piecegoods imported into India should be subjected to additional import duties;

(2) that the amount of these additional duties should be roughly equivalent to the reduction in the cost of production which Indian mills would be able to secure if they also were enabled to work double shifts by employing women at night, and

(3) that an *ad hoc* Committee should be appointed to determine, in the light of the above principle, what extra duties should be imposed.

3. The case as stated above clearly raises issues of grave importance. For the proposals which have been submitted for the consideration of the Government of India contemplate the imposition of differential duties on yarn and piece-goods imported from Japan. If therefore they were accepted, they would involve the denunciation by the Government of India of the Trade Convention with Japan of 1905. For under that Convention, Japanese goods enjoy on importation into India "the lowest customs duties applicable to similar products of any other foreign origin" and the same treatment is secured to Indian goods on importation into Japan. Your Committee will readily agree that it would be a most serious step to denounce the Convention, and if the Government have felt compelled to subject the reasons advanced in support of this step to the closest scrutiny, they are confident that your Committee will recognise that they have done so not in any contentious spirit, but merely because it is essential that in a matter of such importance, they should be sure of their ground.

4. I am first therefore to make it clear that the Government of India are unable to accept the implied assumption in your letter that by ratifying and carrying into effect the Conventions concerning hours of work, the employment of women at night and the night work of young persons, they placed at any rate the Bombay mill industry in a worse position *vis-a-vis* Japan than it had been before. Government do not consider that this statement corresponds with the history of events. The Factories Act of 1911 prohibited the employment of males under 14 by night in all factories and it also prohibited the employment of women by night in all factories except cotton ginning and pressing factories. In consequence, the ratification of the two Conventions relating to the night work of women and the night work of young persons did not involve any amendment of those provisions of the Factories Act which regulate the conditions of employment in the Bombay Mills, and in fact no such amendment was made when the Act was revised in 1922. It is true that the ratification of the Convention concerning hours of work did necessitate an amendment of the Indian Factories Act in 1922. But that amendment did not alter the position for the mill industry of Bombay. For the millowners had already reduced the hours of work from 12 to 10 before the Convention was ratified by the Government of India with the approval of the Legislature in 1921 and long before the Indian Factories Act was amended in 1922. In this connection, I am to remind you of the memorial submitted by your Committee to His Excellency the Viceroy in March, 1920. In that memorial your Committee stated that one of the principal demands made by the mill hands when they went on strike in January, 1920, was a reduction of daily hours of work from 12 to 10. Your Committee said that it had agreed to the demand which is considered to be fair, and it went on to ask that a similar limitation should be enforced by law on textile mills in other parts of India. And while the Convention was cited in support of the prayer contained in your memorial, Government were urged to establish a ten hours' day in Indian factories on the ground that such a step would advance the interests of both capital and labour in India. The passing of the Factories Act of 1922 did not involve a reduction of the hours of work in the Bombay cotton mills, so that it is clear that the ratification of the three Conventions cited by your Committee did not effect any material alteration in the law applicable to employment in the cotton mills. It therefore follows that the basis for the case of your Committee, as it is stated in your letter, disappears.

5. This being so, the Government of India do not propose to comment at length on the implications of your argument that because the Government of Japan has not ratified the Conventions, the Government of India would be justified in imposing additional duties on yarn and piece-goods imported from Japan. But they must point out that there is no obligation on any Government to ratify a draft Convention adopted by a Conference of the International Labour Organisation, even though its representatives at the Conference may have agreed to the draft Convention. The whole basis of these Conferences is that merely draft Conventions are adopted. Under Article 405 of the Peace Treaty, each State which is a member of the International Labour Organisation undertakes to bring the draft Convention within one year before the competent authorities for the enactment of legislation or other action. If no legislation or other action to make a recommendation effective follows, or if a draft Convention fails to obtain the consent of the competent authorities concerned, no further obligation rests on the State in question. In this connection, I am to refer you for a discussion of the whole question to Chapter II of the Report of the Commission on International Labour Legislation printed in Bulletin of Indian Industries and Labour No. 4, 1921. The suggestion of your Committee, therefore, involves the conclusion that the exercise by the Government of Japan of discretion expressly given to it in a treaty to which both Japan and India were parties should be regarded as justifying the Government of India in denouncing another treaty between the two countries. Your Committee will realise that when it is put in this form the

conclusion is one which it is scarcely possible for the Government of India to accept and which, if it were adopted, might have far-reaching consequences.

6. For these reasons the Government of India regret that they cannot accept as valid the statement of the case contained in your letter, and they must make it quite clear that they are unable to agree to your Committee's proposal that the case for safeguarding duties (as opposed to "general protection") should be accepted as established, and that a Committee should forthwith be appointed merely for the purpose of determining the amount of those duties. At the same time, the present difficulties of the mill industry are a matter of much concern to the Government of India, and they are anxious to do what they can to assist the millowners to find the right solution of those difficulties. Their position is that they recognise that the mill industry especially in Bombay City has been passing through a period of depression. They recognise that the import of Japanese yarn and piece-goods has been increasing rapidly. They recognise that Japanese millowners have an advantage over Indian millowners in that they work double shifts and they are willing to believe that the working of double shifts in Japan is facilitated, by the fact that the employment of women at night is not prohibited. They are prepared to admit, therefore, that there is a *prima facie* case for enquiry. But they hold that the enquiry should be a comprehensive enquiry, and that the whole field should be opened to the body entrusted with it. For protection whether it be called protection or merely safeguarding, must enhance the price of cotton goods (which is still exceptionally high) for the Indian consumer, and the Government of India are unable to agree to any course that would have this result unless and until the necessity of that course is established by a comprehensive impartial enquiry. In their view, diagnosis must precede the prescription of remedies, and they are not yet satisfied that the present condition of the mill industry in Bombay is solely due to competition from Japan.

7. Mr. Chadwick will have left for England before you receive this letter but I am to say that the Honourable Sir Charles Innes will be in Bombay from 1st to 4th April 1926, and will be pleased to arrange an interview with your Committee.

Copy of letter No. 817/102 of 1926, dated the 19th May 1926, from the Millowners' Association, Bombay, to the Honourable Sir Charles Innes, K.C.S.I., C.I.E., I.C.S., Member of the Government of India, Department of Commerce, Simla

Arising out of the representations made to the Government of India by this Association during the last two years, and as a direct result of the two conferences which took place on the 1st and 3rd April between yourself and the Committee of the Bombay Millowners' Association, I am instructed to request that the Government of India may be pleased to direct the Tariff Board or some other Committee similarly constituted, and with similar powers, to enquire into the causes of the present severe depression in the Bombay cotton textile industry and to suggest the measures which might be taken to restore this important indigenous industry to prosperity.

2. In the Association's letter No. 1168/118, dated the 7th October 1925, the Government of India were urged to abolish the excise duty and it was further stated if, after the abolition of the excise duty, the cotton mill industry found itself in need of protection against competition from countries which had ignored the Washington Conventions regarding hours of labour or which enjoyed indirect benefits owing to depreciated exchange or other circumstances, this Association might possibly ask for an enquiry.

3. The abolition of the excise duty has unfortunately been insufficient to offset the advantages enjoyed by other countries owing to depreciated exchange, inferior conditions of labour, double shift working, employment of women at night, indirect subsidies, etc., and the Association therefore request that Government will be pleased to institute an early and comprehensive enquiry as indicated in the first paragraph of this letter.

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